

Atomic Energy Canada Limited

2008 ANNUAL FINANCIAL REPORT



Atomic Energy of Canada Limited (AECL) is a full service nuclear technology company providing services to nuclear utilities around the world. Established in 1952, AECL is the designer and builder of CANDU® technology, including the Advanced CANDU Reactor® (ACR-1000®) and the CANDU 6, one of the world's top-performing reactors.

AECL's 4,700 employees deliver cutting edge nuclear services, research and development (R&D) support, design and engineering, construction management, specialized technology, refurbishment, waste management and decommissioning in support of CANDU reactor products.

MANDATE

AECL will create customer and shareholder value through:

- Managing the Canadian nuclear platform responsibly and cost effectively
- Leveraging the technology base to deliver nuclear products and services to market
- Paying dividends from profitable growth

VISION

- To be the top worldwide nuclear products and services company
- To protect the health and safety of the public, our employees and the environment
- To minimize nuclear legacy obligations for future generations

VALUES

To achieve our vision, AECL people must be:

- Driven by Customers' Needs
- Obsessed by Quality, Excellence and Safety
- Personally Responsible and Accountable
- Engaged in Open and Honest Communication
- Empowered to Challenge and Innovate
- Committed to Learning and Teamwork
- Motivated by Performance

CUSTOMER COMMITMENT

Trust, Quality, Innovation, Value . . . AECL's commitment to you.

2007-2008 Revenue (\$ millions)

AECL's consolidated commercial revenue in 2007-2008 was \$599 million. The company's CANDU Reactor Division revenue, which represents a considerable portion of total commercial revenues, increased by approximately 5% to \$558 million, reflecting progress on existing domestic life extension projects. Overall, life extension activities continue to contribute significantly to AECL's revenue growth.

CANDU Reactor Division

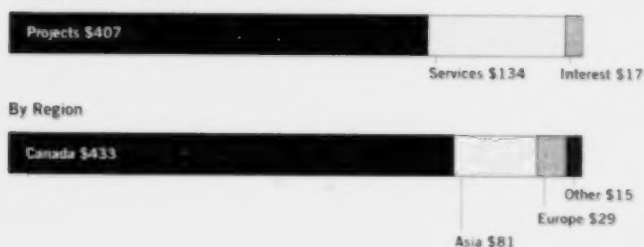


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2007-2008 HIGHLIGHTS

FINANCIAL

- ▶ Consolidated commercial revenue increased by 4% over the previous year to \$599 million, reflecting progress on reactor life extension projects.
- ▶ AECL spent \$96 million on fulfilling decommissioning and waste management obligations under the Government-funded Nuclear Legacy Liability Program. Significant achievements include progress on two major projects: the Liquid Waste Transfer and Storage (LWTS), and the Fuel Packaging and Storage (FPS) projects.
- ▶ AECL received additional appropriation funding of \$94 million from the Government of Canada in 2007-2008 to support several essential initiatives. The Government also budgeted funding of \$452 million for 2008-2009.
- ▶ AECL recorded impairment charges of \$247 million relating to its MAPLE 1 and MAPLE 2 reactors and related assets. Shortly after fiscal year-end, AECL discontinued further development of the reactors due to increased business and technical risks and changing market conditions. AECL continues to safely and reliably supply isotopes from the National Research Universal (NRU) reactor.

ACR-1000

- ▶ AECL and its Team CANDU partners conducted a feasibility study for a new ACR-1000 power plant in New Brunswick.

- ▶ The Canadian Nuclear Safety Commission (CNSC) and AECL signed a Memorandum of Understanding that allows CNSC staff to start the pre-project design review of the ACR-1000.

HEALTH AND SAFETY

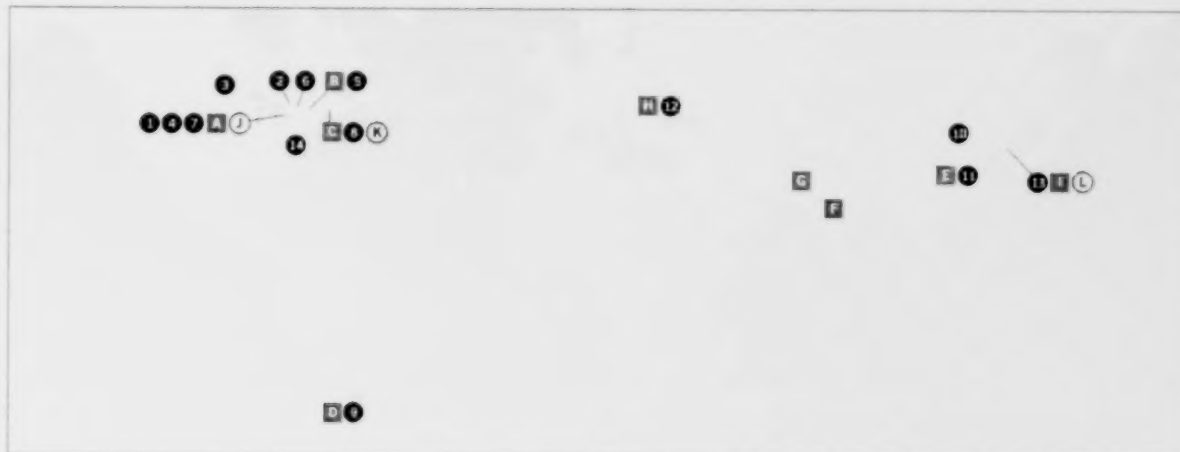
- ▶ AECL made progress toward achieving its health, safety and environmental stewardship objectives at its nuclear laboratory sites, increasing its investment by \$25 million in facilities operations.
- ▶ The frequency of lost time injuries continued to decline in 2007-2008, reaching its lowest level in seven years.

BUSINESS AND OPERATIONS

- ▶ The second CANDU reactor unit at Cernavoda, Romania, was commissioned and placed in service. Opportunities exist for a third and fourth unit at the Cernavoda site.
- ▶ The Government of Canada announced a review of AECL's business to determine the optimal structure to meet current market requirements and Canada's public policy objectives.
- ▶ Growth in business operations drove a 14% increase in full-time employees to 4,728 (2006-2007: 4,135).
- ▶ The Governor-in-Council appointed a new Chair of AECL's Board of Directors and a new Chief Executive Officer in 2008. In addition, four new directors joined the Board.

WORLD CLASS TECHNOLOGY

48 heavy water reactors based on the CANDU design in operation, under construction, or under refurbishment – located on four continents.



AECL OFFICES

- | | |
|------------------------------------|-----------------------------------|
| 1 Head Office, Mississauga, Canada | 10 Beijing, China |
| 2 Chalk River Laboratories, Canada | 11 Shanghai, China |
| 3 Whiteshell Laboratories, Canada | 12 Cernavoda, Romania |
| 4 Bruce County, Canada | 13 Seoul, South Korea |
| 5 Montreal, Canada | 14 Gaithersburg, Maryland, U.S.A. |
| 6 Ottawa, Canada | |
| 7 Pickering, Canada | |
| 8 Saint John, Canada | |
| 9 Buenos Aires, Argentina | |

CANDU REACTORS

- | |
|------------------------------------------|
| A Ontario, Canada (18 units) |
| B Québec, Canada (1 unit) |
| C New Brunswick, Canada (1 unit) |
| D Argentina (1 unit) |
| E China (2 units) |
| F India (15 units, 3 under construction) |
| G Pakistan (1 unit) |
| H Romania (2 units) |
| I South Korea (4 units) |

REFURBISHMENTS

- | |
|-------------------------|
| J Ontario, Canada |
| K New Brunswick, Canada |
| L South Korea |

MESSAGE FROM THE CHAIR

FOCUS ON GOVERNANCE AND GROWTH

This past year witnessed a growing movement toward new nuclear opportunities around the world. AECL's Board of Directors has taken significant steps to improve corporate governance and position AECL as a key player in this global nuclear renaissance.

Working with its shareholder, the Government of Canada, the Board has dealt with many challenges facing the corporation in carrying out its mandate. These include making key decisions to focus the corporation on its core business of designing, building and servicing nuclear power reactors to compete successfully in markets in Canada and abroad. At the same time, the Board has actively pursued its governance role in identifying priorities and AECL's stewardship responsibilities for the Chalk River Laboratories and leadership in managing legacy wastes.

As part of the plan to build on our foundation and grow our value, the Board and Management introduced a refocused structure with the CANDU Reactor and Research and Technology divisions. This structure provides a strong focus on key business lines, operational efficiency and management accountability, with a clear linkage between AECL operations and financial performance.

With the appointment in January of four Directors, President and Chief Executive Officer Hugh MacDiarmid, and myself as Chair, the Board has also focused on governance decisions, including the posting of the Special Examination Report of the Office of the Auditor General. This report identified several challenges that required immediate attention. AECL management proposed actions to address the report's recommendations and the Board ensured that those actions were appropriate and



subsequently put in place. The Government of Canada provided welcome support in its February budget with \$300 million allocated to AECL specifically to address these challenges.

To support AECL's success at home, the Board has been actively engaged with AECL management and Team CANDU partners in the Ontario bid process to be selected as the preferred supplier of new build reactors, an essential outcome for our long-term success in domestic and international markets. A Research and Development Panel of external independent experts has provided scientific advice directly to the Board on relevant nuclear reactor research and technology.

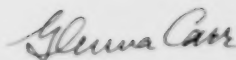
Among its priorities, the Board has been contributing to the Government of Canada's review of AECL and its operations and is assisting our federal shareholder in making their decisions on the optimal structure for AECL to meet market requirements and public policy objectives.

Effective board governance needs dedicated and committed board directors, the opportunity to learn from best practices, and effective communication with shareholders. To this end, the Board focused on improving shareholder relations, increased transparency in providing information, and developed a Board of Directors succession plan and skills profile. This included a review of key governance and accountability processes in like corporations.

A significant focus for the Board has been to oversee the development and implementation of comprehensive Enterprise Risk Management, enabling the Board to assess and monitor the risks and appropriate mitigation associated with AECL's operations and mandate. As a result, Board Committees have been restructured and a new Project Risk Review Committee will be established in fiscal 2008–2009 to ensure an appropriate level of Board oversight over business and other related risks.

These results have been made possible in a short period of time through the effort and dedication of the Board of Directors and their commitment to ensure AECL achieves the most rigorous standards and effective results for future success and sustainable growth.

Since January, it has been a pleasure to work with President and Chief Executive Officer Hugh MacDiarmid, whose strong leadership and significant communication capability are an asset to AECL. I have also developed a profound respect for the people who work at AECL and who have helped build AECL as Canada's nuclear champion, delivering value to our shareholder and our country.



GLENN A. CARR
Chair of the Board

MESSAGE FROM THE PRESIDENT

ON THE PATH TO SUCCESS

AECL has a dual mandate from its shareholder, the Government of Canada: firstly, to be the "nuclear platform" or repository of nuclear science and technological expertise for Canada; secondly, to operate a commercially viable business designing and building nuclear power reactors. Our company made substantial progress against both aspects of our mandate in this past year.

Our Research and Technology Division, centred at the Chalk River Laboratories, continues to push the frontiers of nuclear science with advanced development work in support of both the nuclear power industry and our academic and scientific communities. We continue to demonstrate leadership in management of legacy wastes and ongoing development of next generation nuclear reactors.

Health and safety continued to be a major priority for AECL with the investment of \$57 million in research and development to support CANDU technology and in-service reactor safety and reliability. AECL also increased its investment by \$25 million in nuclear laboratory facilities operations as part of its commitment to our health, safety and environmental stewardship objectives.

Our CANDU Reactor Division significantly progressed the development of the Generation III+ ACR-1000 reactor, which will be our key product for larger power grids. Marketing efforts for the ACR-1000 are now focused entirely on the Canadian market, based on the firm belief that international success with a new reactor must be based on a solid market position in the home country. The natural-uranium-based CANDU 6 reactor continues to be marketed internationally, with a focus on mid-market countries where our product fits the electricity grid and where natural uranium is a preferential fuel.

In our domestic market, several opportunities are within our grasp. We are participating in the Ontario government's Request for Proposal process to select a new build nuclear reactor vendor for the province. And, in New Brunswick, AECL completed a feasibility study for a second nuclear



reactor at the Point Lepreau Generating Station. Both projects would utilize AECL's ACR-1000 technology.

The certainty of our delivery schedule for licensing ACR-1000 plants in Canada was enhanced with the signing of a Memorandum of Understanding with the CNSC, which set in motion a design review process for the ACR-1000, a vitally important step in our product launch plan.

2007 marked the completion of the Cernavoda Unit 2 reactor in Romania, another project that was completed in a highly professional manner and handed over to the customer successfully. Opportunities exist for AECL to participate in the construction of the third and fourth units in Romania.

Work also progressed on three significant mid-life extension projects, two in Canada and one in Korea. These projects generate significant revenue streams for AECL, but also demonstrate very clearly the ability of CANDU reactors to perform for their entire 50-plus year design life and continue to refresh our base of experience in project management.

Corporate revenues have grown substantially in the past three years, now reaching \$599 million. Employee resource growth has been equally significant, with the addition of 1,500 full-time staff since 2005, bringing the staff complement to more than 4,700 full-time employees.

The past year was one of both challenges and achievements. The unplanned extended shutdown in November of the NRU reactor at Chalk River and subsequent legislative intervention to restart production of isotopes was an unfortunate incident.

To avoid repetition, an independent study has been commissioned jointly by AECL and the CNSC that will

report on the causal factors that led to the shutdown and will recommend improvements to the working processes between AECL as the operator and licensee, and the CNSC as the regulator. In the meantime, AECL has been making efforts to improve its working relationship with the CNSC.

The Office of the Auditor General conducts a Special Examination Report every five years. Their latest report identified three key challenges at AECL requiring attention: the growing need for modernization of the Chalk River Laboratories facility; the requirement to continue funding the development of the ACR-1000; and the completion and licensing of the Dedicated Isotope Facilities. This report provided heightened visibility to these issues and identified a need for action.

The Government of Canada reaffirmed its commitment to AECL by providing the funding support necessary to address these important challenges, specifically \$300 million for the 2008-2009 fiscal year. We take this as a critical vote of confidence in our company.

Subsequent to the year-end, we announced the decision to discontinue development of the MAPLE isotope reactors project. This decision was based on the materialization of technical and other risks that were anticipated from the outset of the project and made it impossible to achieve the objectives of our contractual arrangements. While it is never a happy event to take such an action, we firmly believe it is the right decision and that it best serves the interests of Canada and Canadians.

In support of a clear vision for the company, the Government of Canada announced in November a review of AECL's business to determine whether AECL's structure is

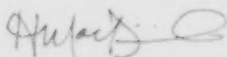
appropriate for a rapidly changing global nuclear industry set for exponential growth.

AECL is a company with a proud heritage and huge potential. We are focused on marketing our core product lines of nuclear reactors to both Canadian and international customers and are determined to achieve commercial successes in the very near future. We continue to invest in technology and people in the belief that we must be ready to grasp the market opportunities that are emerging as the nuclear renaissance gains momentum.

I wish to express my thanks to my predecessor, Robert Van Adel, for his many contributions to AECL during his tenure. I also want to acknowledge the leadership of Ken Petrunik, who served as Acting Chief Executive Officer on an interim basis prior to my appointment, and the legacy of David Torgerson, who recently retired as Executive Vice-President and Chief Technology Officer after 32 years of dedicated service to AECL.

AECL is extremely fortunate to have a capable and dedicated Board of Directors, and especially so to have Glenna Carr as the Chair of the Board. Effective governance will be a major contributor to the long-term success of this corporation.

We are well launched on our path to success and will continue to pursue our mission with determination.



HUGH MACDIARMID
President and Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

FORWARD-LOOKING STATEMENTS

This Management's Discussion and Analysis (MD&A) has been approved by AECL's Audit Committee. It provides comments on the performance of the Corporation for the year ended March 31, 2008 and should be read in conjunction with the consolidated financial statements and accompanying notes included in this Annual Report.

This MD&A contains forward-looking statements with respect to AECL based on assumptions that management considers reasonable at the time of preparation. These forward-looking statements, by their nature, necessarily involve risks and uncertainties that could cause future results to differ materially from current expectations. We caution the reader that the assumptions regarding future events, many of which are difficult to predict, may ultimately prove to be incorrect.

OVERVIEW OF AECL'S BUSINESS

AECL's business activities encompass all aspects of supporting the CANDU reactor product life cycle. This includes the design and construction of nuclear reactors and related products, provision of services, life extension, and decommissioning and waste management.

AECL also performs a unique public policy role. This involves maintaining and enhancing Canada's nuclear technology to ensure Canadian electricity supply requirements and to manage decommissioning and waste obligations in a safe and effective manner. AECL relies upon funding provided by the Government of Canada to manage its facilities at Chalk River, Ontario and Pinawa (Whiteshell), Manitoba. In addition, AECL manages production and supply of a significant portion of global isotope requirements. AECL fulfils its public policy role through:

- Supporting Canadian utilities in the continuous and reliable production of approximately 15% of Canada's electricity in a safe and effective manner
- Supporting the CANDU nuclear industry in maintaining nuclear energy as a credible alternative source of clean electricity generation
- Producing isotopes for distribution and consumption globally
- Representing Canada internationally with respect to nuclear treaties and scientific matters
- Executing decommissioning and waste management activities

AECL'S PUBLIC POLICY PRIORITIES



FINANCIAL REPORTING STRUCTURE

AECL operates through three business divisions: CANDU Reactor, Research and Technology and the Liability Management Unit (LMU).

The objective of this business structure is to facilitate greater transparency in financial reporting and accountability for program objectives in accordance with good governance. Each division is responsible for achieving its business goals as established in the Corporate Plan.

CANDU Reactor Division

The CANDU Reactor Division, based in Mississauga, Ontario, is operated on a commercial basis and generates value through its core activities, which include the management of nuclear reactor construction, life extension and servicing projects. The division also manages marketing and business development and the commercialization of AECL's evolutionary ACR-1000, a Generation III+ heavy water nuclear reactor.

AECL REPORTING UNITS



Research and Technology Division

The Research and Technology Division contributes value to Canada through undertaking of research, production of medical isotopes and management of nuclear waste. An important part of the Research and Technology Division's mission is to carry out the Government of Canada's policy mandate in support of Canadian nuclear technology and industry through its technology infrastructure, which includes nuclear laboratories and facilities.

Liability Management Unit

The LMU manages waste and decommissioning liabilities on behalf of the Government of Canada. The program has a long-term focus – spanning several decades – to safely address decommissioning and waste management obligations on AECL-managed sites and waste received for safe storage from universities, medical facilities, government and industry from across Canada. This is managed in accordance with CNSC regulations and in the best interests of Canadians. These liabilities include obligations associated with AECL's existing infrastructure, those stemming from activities before AECL was incorporated in 1952, third party radioactive waste from across Canada, and R&D waste in support of Canada's nuclear program. The Research and Technology Division and private sector contractors perform decommissioning and waste management work. Liabilities such as operational waste, created after March 31, 2006, are separately accounted to reflect AECL's responsibility to manage and finance such wastes.

OBJECTIVES AND STRATEGIES

To achieve its vision, AECL is focusing on two long-term objectives that are subject to the outcome of the Government of Canada review of AECL's business:

1. Increase Commercial Value Through the CANDU Reactor Division

Rising global electricity requirements combined with significant global pressures to mitigate climate change has stimulated an increased demand for nuclear energy. At the same time, a significant number of nuclear reactors worldwide are reaching a stage at which they require life extension or replacement. AECL, with its unique capabilities and excellent track record in nuclear power project delivery, expects to capitalize on this market opportunity.

The development and commercialization of AECL's ACR-1000 technology to meet market requirements is a key strategy to increase commercial value. The ACR-1000 uses core CANDU technology and promises significant capital cost reduction, safe operations, enhanced power output, reduced construction time and advanced reactor control technologies. Commercialization of the ACR-1000 has progressed to the extent that potential global customers have shown interest in its commercial value. In Canada, several provinces are currently considering the ACR-1000 as the technology-of-choice for their power generation needs.

Continued development of the ACR-1000, at a pace consistent with the market window, is critical to ensuring that AECL is a major player in the development of new nuclear reactor plants, both in Canada and overseas. As well, the success of AECL's existing domestic and overseas reactor life extension projects is essential to reaffirm AECL's technical and project management expertise and attract future opportunities.

2. Preserve and Enhance Canada's Nuclear Capability Through the Research and Technology Division

AECL's R&D capabilities provide support for the design and licensing basis of CANDU reactors over the reactors' lifespan for both domestic and international customers. In other countries, this type of R&D is typically performed by national government-funded nuclear laboratories, not by nuclear vendors. AECL is unique in that it fulfills both the national laboratory function and the reactor vendor role.

AECL also maintains the capability to perform decommissioning and waste management activities. Currently, this capability is directed toward fulfilling an agreement with the Government of Canada to manage historical waste liabilities in a safe and effective manner.

The strategies to maintain and enhance Canada's nuclear capability are to:

- Sustain research activities through the overall operation of the Chalk River Laboratories
- Continue to upgrade the infrastructure at the Chalk River Laboratories. Critical investments are required to achieve improvements in operational performance that are necessary to align with nuclear industry standards
- Continue to produce isotopes from the NRU reactor and work with stakeholders to determine the best strategy to secure a long-term supply of isotopes
- Reduce historical waste liabilities in accordance with the Nuclear Legacy Liability Program, as agreed upon with the Government of Canada. In addition, AECL will develop infrastructure to meet future waste management and decommissioning requirements in accordance with technological and regulatory changes.

KEY SUCCESS DRIVERS AND CAPABILITY TO DELIVER RESULTS

Customer Commitment

Commercial success is positively correlated to customer satisfaction. AECL achieves customer commitment by economically delivering on its contractual requirements and providing innovative products and services. Key aspects that are expected to reinforce customer commitment include the successful completion of existing reactor life extension projects and delivery and implementation of new reactor technologies. As well, critical resources which include funding, people, an adequate supply chain and project management skills facilitate in delivering products and services that meet market requirements and reinforce customer commitment.

Research and Development

Key to AECL's success is the broad R&D capability of the Canadian nuclear program and AECL's technical competencies, which provide a firm base to develop and produce new cost effective products and services. This ensures delivery of commercial value to customers. AECL's R&D infrastructure is used to advance the safety and performance of CANDU reactors, with the goal of exceeding international standards. As part of this strategy, AECL and the Government of Canada continue to invest in nuclear R&D.

Project Management Skills

Complementary to AECL's R&D capability are contracts structured to deliver value and timely implementation through effective project management. AECL's CANDU Reactor Division has a strong foundation in managing major projects, formed with the completion of highly successful international projects during the last decade. AECL added to its track record with the completion of Cernavoda 2, which went into full commercial production in 2007.

Construction Track Record

<i>Project</i>	<i>Year Completed</i>
Cernavoda 2, Romania	2007
Qinshan 2, China	2003
Qinshan 1, China	2002
Wolsong 4, South Korea	1999
Wolsong 3, South Korea	1998
Wolsong 2, South Korea	1997
Cernavoda 1, Romania	1996
All major nuclear power projects completed on time and on budget.	

World Class Product

AECL developed and commercialized the CANDU reactor, with 30 operating units in seven countries. The CANDU 6 design has proven to be safe, economical and reliable over the past four decades of operation and has a lifetime capacity factor of 89% (Source: 2007 COG).

Supply Chain

AECL's success in meeting its customers' requirements for commercial products, services, R&D and waste and decommissioning programs is dependent upon maintaining a robust supply chain. The challenge lies in the limited number of suppliers with adequate skills and technology to meet highly regulated and complex product and supply specifications. AECL manages this by developing essential alliances with key suppliers, including the Organization of CANDU Industries, SNC-Lavalin Nuclear Inc., and Babcock & Wilcox Canada, to mitigate risks associated with project execution and enhance market and profit potential for AECL, our partners and customers.

During 2007–2008, several nuclear power cooperation agreements were established, including those with Russia, Argentina and China. Recently, Canada joined the US-led Global Nuclear Energy Partnership to safely and securely expand nuclear power worldwide while responsibly managing nuclear waste and reducing proliferation risks.

Government of Canada Support

In Canada, the development and success of the domestic nuclear industry has been assisted by support from government at all levels. In particular, the federal government provides funding and supports AECL's public policy mandate. During 2007–2008, the Government of Canada provided funds for the following programs at varying levels:

- Ongoing nuclear research and development program and supporting operations
- The ACR-1000 reactor development
- The decommissioning and waste management program, which currently has committed funding up to the end of March 2011.

The resurgence of the nuclear industry presents Canada with a unique opportunity to leverage its nuclear capabilities. A long-term commitment from the Government is essential for AECL to capitalize upon this opportunity.

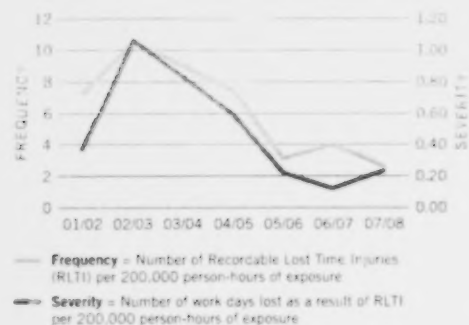
AECL seeks the Government's support of its activities through the approval by the Governor in Council of AECL's Corporate Plan. The 2007–2008 Corporate Plan was approved in June 2008, subsequent to fiscal year-end due to Government review of funding options and policy issues.

Skilled Human Resources

AECL is one of Canada's largest high-tech companies, with approximately 4,728 full-time employees comprised of more than 3,200 highly skilled engineers, scientists, technical professionals and operations personnel in a wide range of technical disciplines. During the year, AECL increased its staff by approximately 14% to address growth and to sustain existing nuclear facilities. Top scientific, engineering and technological talents, as well as broadly experienced managerial and business personnel, are essential in a competitive industry. Consequently, AECL continues to develop and maintain a working environment that will effectively attract, retain, develop and motivate competent, appropriately skilled employees.

AECL is a highly regulated company, and safety continues to be an important factor in sustaining an effective business environment. AECL's safety culture initiative, which includes awareness training in the areas of human performance and safety related metrics, continues to be reflected in an effective safety record. In 2007-2008, the corporate frequency of recordable lost time injuries reached its lowest level in seven years, while the severity of injuries increased marginally over the previous year.

Graphic Example of Canada's Limits



FINANCIAL REVIEW

Key Financial Information

(\$ millions)	2007-08	2006-07
Revenue		
CANDU Reactor	\$ 558	\$ 533
Research & Technology	41	41
Total revenue	\$ 599	\$ 574
Funding		
Parliamentary appropriations for ACR-1000	\$ 38	\$ -
Parliamentary appropriations for Research and Technology	144	105
Decommissioning funding for LMU	96	63
Cost recovery from third parties & other	23	23
Total funding – operating items	\$ 301	\$ 191
Funding – capital items	17	5
Total funding – capital and operating	\$ 318	\$ 196
Net income (loss) by business division		
CANDU Reactor before investment in ACR-1000	\$ 50	\$ 80
Parliamentary appropriations for ACR-1000	38	-
Less: ACR-1000 development costs	87	69
CANDU Reactor after investment in ACR-1000	1	11
Research and Technology before impairment expenses	(50)	(70)
Impairment expenses	(247)	-
Research and Technology after impairment expenses	(297)	(70)
Liability Management Unit	(68)	(84)
Total loss	\$ (364)	\$ (143)

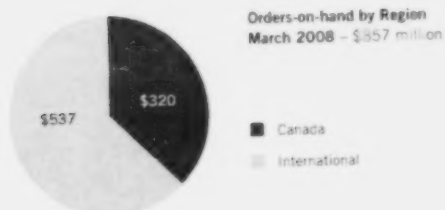
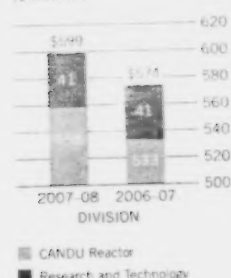
Revenue

Commercial revenues from all business divisions rose to \$599 million from \$574 million in 2006-2007, and \$407 million a year earlier – an increase of 47% in two years.

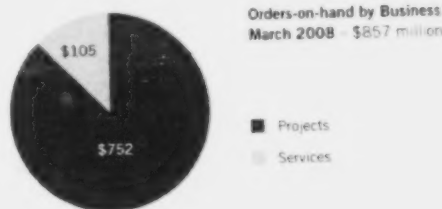
The CANDU Reactor Division contributed \$558 million or 93% to AECL's 2007-2008 revenue, a 5% increase over the previous year, reflecting progress on reactor life extension projects and increased CANDU services revenue.

Research and Technology commercial revenue at \$41 million was maintained at the previous year's level. Increased sales of R&D services were partially offset by lower isotope sales, which were impacted by an extended shutdown of the NRU.

Revenue by Business (\$ millions)



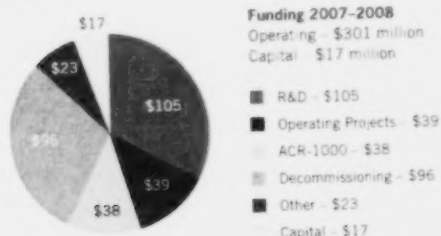
Orders-on-hand by Region
March 2008 – \$857 million



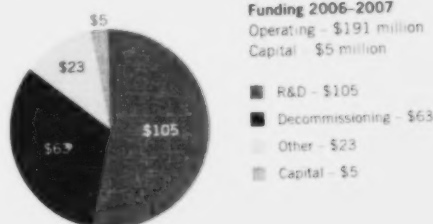
Orders-on-hand by Business
March 2008 – \$857 million

AECL commercial orders-on-hand (backlog) is based on contracts awarded that are firm. Orders-on-hand, as at the end of March 2008, are \$857 million (March 2007: \$1,260 million). This decline reflects progress made on existing projects. However, AECL expects continued revenue growth with anticipated new orders on life extension and new-build projects.

Funding



Funding 2007-2008
Operating – \$301 million
Capital – \$17 million



Funding 2006-2007
Operating – \$191 million
Capital – \$5 million

Total funding received in 2007-2008 for operating activities recognized in the income statement was \$301 million (2006-2007: \$191 million). This included:

- \$38 million for the ACR-1000 program to defray expenditure of \$87 million incurred in 2007-2008. This level of investment allowed the program to progress according to schedule.
- \$39 million for operating projects to address regulatory requirements at AECL's Chalk River site in compliance with CNSC site licence conditions
- \$105 million for ongoing R&D and nuclear facilities costs at Chalk River
- \$96 million for decommissioning and waste management activities as part of the \$513 million committed by the Government over a five-year period, ending in March 2011
- Cost recoveries from third parties and other income was maintained at \$23 million (2006-2007: \$23 million). Increased scope of work for the CANDU Owners Group was offset by lower funding for the Low-Level Radioactive Waste Management Office (LLRWMO), which was reduced to \$4 million, compared to \$5 million in the previous year.

Total funding received for capital activities was \$17 million (2006-2007: \$5 million). This was used for capital projects relating to infrastructure at the Chalk River site. This funding was treated as deferred capital funding on the balance sheet to match future amortization costs of the related capital asset.

Impairment of Assets

In 2007–2008, AECL recognized under its Research and Technology Division an impairment loss of \$247 million on its Dedicated Isotope Facilities, which includes the MAPLE 1 and MAPLE 2 isotope reactors and processing facility. Of this total, \$202 million represented the carrying value of these facilities and \$45 million represented related inventory and supplies. An analysis of impairment testing of the long-lived asset determined that revenues over the projected service life of these facilities would not recover these expenditures. In May 2008, AECL discontinued development work on its MAPLE 1 and MAPLE 2 reactors. The decision was based on a series of reviews that considered, among other things, costs of further development, the time frame and technical risks involved with continuing the project. AECL is focusing its efforts on ensuring continued production of isotopes using the NRU reactor and associated facilities. The NRU currently has an operating licence from the CNSC that is valid until October 2011 and AECL will be working closely with stakeholders on the requirements for continued production beyond that date.

Net Income/Loss by Division

Over the last five years, the CANDU Reactor Division has contributed net income totalling \$325 million, including \$50 million before ACR-1000 net investment of \$49 million in 2007–2008. Net income of \$50 million before ACR-1000 investment was lower in 2007–2008 compared to the previous year's level of \$80 million. The decline reflects increased labour and equipment costs anticipated for the life extension projects, resulting in lower overall gross margin in 2007–2008.

Before absorbing the impairment expenses as described above, the Research and Technology Division incurred a loss from operations of \$50 million, representing a net expense above Government appropriations and commercial revenue generated by the division. Increased costs, related to infrastructure and regulatory requirements to meet licensing conditions of the Chalk River site, contributed to this loss. After including impairment expenses of \$247 million, the Research and Technology Division reported a loss of \$297 million.

The LMU reported a net loss of \$68 million compared to a net loss of \$84 million in the previous year, largely resulting from a higher level of funding associated with increased activities, partially offset by an increase in the estimate of the overall decommissioning and waste management liability.

In 2007–2008, AECL generated a consolidated net loss of \$364 million from all activities (2006–2007: \$143 million net loss). This increased loss of \$221 million over 2006–2007 is mainly attributable to the impairment expense recognized for the write down of the MAPLE reactors and related assets.

DIVISION OPERATING RESULTS

CANDU Reactor Division	Research and Technology Division	Liability Management Unit
2007–2008 Revenue: \$558 million	2007–2008 Revenue: \$41 million	2007–2008 Funding: \$100 million
2007–2008 ACR-1000 Funding: \$38 million	2007–2008 Operational Funding: \$163 million	
Business Lines		
<ul style="list-style-type: none"> New-build and reactor life extension (including ACR-1000 commercialization) Services 	<ul style="list-style-type: none"> Research and development Isotope production Decommissioning and waste management services 	<ul style="list-style-type: none"> Management of Government of Canada decommissioning and waste liability
2007–2008 Significant Achievements and Progress		
<ul style="list-style-type: none"> Revenue increased 5% to \$558 million Cernavoda 2 new-build project completed Major life extension projects proceeding to meet contractual requirements Significant business development progress in Ontario, Alberta and New Brunswick for an ACR-1000 new build, and Romania (Units 3 & 4) and Argentina for a CANDU 6 new-build 	<ul style="list-style-type: none"> Established nuclear power cooperation agreements with Russia, Argentina and China. Canada joined the US led Global Nuclear Energy Partnership initiative to expand nuclear power worldwide Renewed the operating licence for isotope production facilities Secured funding for infrastructure requirements Commenced construction of two major buildings at the Chalk River site to replace aging facilities Upgraded current waste treatment centre to improve and continue solidification process of liquid radioactive waste 	<ul style="list-style-type: none"> Achieved more than 80% of planned deliverables Progressed with fuel packaging and storage (FPS) project to enable completion in 2011 Progressed liquid waste transfer and storage (LWTS) project to enable completion in 2011 Completion of a waste analysis facility

2008-2009 Major Priorities

CANDU Reactor Division	Research and Technology Division	Liability Management Unit
<ul style="list-style-type: none"> Win or be in position to win the new-build contract in Ontario Achieve ACR-1000 license and development milestone commitments in conjunction with Ontario market initiative Meet major life extension contract milestones Secure life extension contract in Argentina and advance life extension negotiations with Quebec Progress with marketing efforts on new-builds in Alberta and New Brunswick Progress in negotiations for Cernavoda 3 & 4 in Romania Achieve services revenue target 	<ul style="list-style-type: none"> Meet Government funding commitments for infrastructure improvements and operating requirements at the Chalk River site. Major projects include renovation of research facilities and buildings, and an upgrade to the site water distribution system Resolve isotope production facilities issues and maintain consistent supply of isotopes to meet market requirements Meet commitments to Canadian utilities related to reactor pressure tubes Develop a technology design for hydrogen production in future reactors Progress with various research and development initiatives to enhance CANDU technology and meet regulatory and market requirements Comply with meeting licensing requirements at the Chalk River site 	<ul style="list-style-type: none"> Secure adequate funding for future activities Meet Government funding commitments: <ul style="list-style-type: none"> Upgrade hot cell facilities required for waste management and decommissioning work Progress with FPS and LWTS projects Decommission various site structures and land in Chalk River and Whiteshell

CANDU REACTOR

The CANDU Reactor Division is responsible for two lines of business: Projects and Services. The Projects business unit activities include construction of new reactors and reactor life extension (retube and refurbishment) projects, together with related marketing and business development, project management services, equipment procurement and heavy water activities. Also included in this line of business are activities related to the development and commercialization of the ACR-1000.

The Services business line provides a full range of engineering and technical products and services. These support operating CANDU plants, extend their life through upgrades and improve customer productivity and competitiveness.

Division Results

In 2007-2008, the CANDU Reactor Division achieved another year of increased revenue. Revenue increased by 5% to \$558 million, following an increase of 67% in the previous year, reflecting progress and increased business activity in major life extension contracts.

Net income before ACR-1000 reactor design activities decreased to \$50 million from \$80 million in 2006-2007, as a result of anticipated labour and equipment cost increases for several life extension projects in 2007-2008. Despite the increase in costs, these projects are scheduled for completion in accordance with contractual requirements and are expected to be profitable upon completion.

After investing \$87 million in the ACR-1000 program, and net of Government funding of \$38 million, the net income for the division was \$1 million compared to \$11 million in 2006-2007. The ACR-1000 program continues to be on schedule with the current marketing plan. In 2007-2008, the preliminary safety case package analysis for the proposed reactor was nearing completion, reflecting significant progress toward meeting market requirements.

Projects

The key business success factors for the Projects business unit are: executing projects on time and on budget, meeting contract specifications and customer requirements, focused marketing programs and developing strategic partnerships to increase market share.

Revenue from the Projects business unit rose to \$407 million (2006-2007: \$390 million) despite a decline in new-build revenue with the completion of the Cernavoda 2 project in Romania. Reactor life extension projects contributed to the increase in revenue during 2007-2008 with progress in the following areas:

- Preliminary installation work with the removal of reactor fuel channel components on the Bruce Power life extension project in Ontario
- Completion of significant planning and design aspects on the Point Lepreau life extension project in New Brunswick. Reactor work is expected to commence early in fiscal 2008-2009.



Services

The Services business success factors include meeting customer needs to improve their reactor capacity factors, increasing operating safety and optimizing reactor performance. The Services business strengths include CANDU technical expertise, product development, emergency response expertise and other unique specialist capabilities.

The Services business generated revenues of \$134 million, an 8% increase over the previous year, reflecting growth from reactor life extension services and revenue recognized on the Low Void Reactivity Fuel contract with a domestic customer.

Looking forward, several opportunities exist to support future work related to nuclear plant upgrades, reactor safety analysis and steam generator cleaning.

RESEARCH AND TECHNOLOGY

The financial goal of the Research and Technology Division is to manage expenditures to specific targets based on committed funding levels. Funding is largely derived from federal appropriations. The division also performs revenue-generating activities, which contribute to the overall funding of its operations. These activities include the production of isotopes, commercial research and development, as well as waste management and decommissioning work.

Division Results

Commercial revenue was maintained at \$41 million in 2007–2008, reflecting increased sales in R&D services, which was offset by lower isotope revenue. The lower than expected isotope production levels resulted from an extended shutdown of the NRU reactor during the year, and higher production levels in the previous year required to meet market demands. However, the reliability rate with respect to production standards for isotopes produced from the NRU reactor remained at a high level of 91% throughout the year while the availability of the reactor itself was lower than the previous year at 69%.

Research and Technology (\$ millions)	Actual Results	
	2007–08	2006–07
Revenue	\$ 41	\$ 41
Expenses	12	20
Contribution	\$ 29	\$ 21
Funding		
Parliamentary appropriations	\$ 144	\$ 105
Cost recoveries	17	15
Amortization of deferred capital funding	2	3
Total funding	\$ 163	\$ 123
Total contribution and funding	\$ 192	\$ 144
Expenses		
Facilities	\$ 185	\$ 160
Research and development	57	54
Total expenses	\$ 242	\$ 214
Net loss before impairment	\$ (50)	\$ (70)
Impairment of long-lived assets	(247)	–
Net loss after impairment	\$ (297)	\$ (70)

Funding

During the year, AECL received operational funding of \$144 million from the Government of Canada, an increase of \$39 million over the previous year, mainly to meet regulatory requirements at the Chalk River site. This amount excludes \$17 million designated for site infrastructure requirements, and is accounted for as capital funding.

Cost recoveries from third parties represents funding for research and development activities performed for the CANDU Owners Group as part of maintaining the CANDU safety, licensing and design basis for Canadian utilities. Funding from these activities increased to \$17 million (2006–2007: \$15 million), reflecting additional work related to the examination of pressure tubes as part of a five-year agreement signed in 2004.

Amortization of deferred capital funding pertains to Government funded assets. The funding of \$2 million recognized in 2007–2008 remained consistent with last year.

Expenses

Overall total expenses within Research and Technology were \$254 million compared to \$234 million in the previous year as a result of increased activities associated with infrastructure and succession planning initiatives. Of the total expense, \$185 million was used for facilities and \$57 million for research and development, compared with \$160 million and \$54 million, respectively, in the previous year. The increase in facilities costs reflects higher operating costs on initiatives to meet regulatory requirements and operating a nuclear site. These initiatives include improvements to the NRU, enhancements to the nuclear oversight function, and preliminary work on infrastructure refurbishment and renewal at the Chalk River site.

Research and Technology reported a net loss before impairment of \$50 million (2006–2007: net loss of \$70 million), mainly as a result of additional self-funded site operating and improvement costs. Overall, the Research and Technology division reported a net loss after impairment of \$297 million in 2007–2008.

Project New Lease

In recent years, expenditures required to meet the needs of safe and efficient operations at the Chalk River site have increased significantly, largely in response to regulatory requirements and aging facilities. To properly address the requirements, management has developed a definitive list of essential incremental operating activities and capital projects, called Project New Lease. In support of these activities, the Government of Canada has provided incremental funding to defray Project New Lease costs incurred during 2007–2008. Currently, several infrastructure initiatives within this program are underway. These include a two-year project to construct a site administration and security building to address CNSC requirements related to security.

2007–2008 Project New Lease

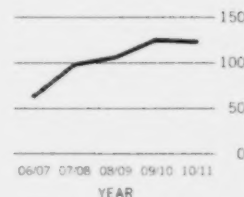
(\$ millions)	Operating	Capital	Total
Government funding	\$ 13	\$ 17	\$ 30
Costs	29	25	54
Net Expense			\$ 24

LIABILITY MANAGEMENT UNIT

Decommissioning program activities include the storage and surveillance of shutdown facilities, decontamination, dismantling, demolition and resulting waste storage and disposal management. The LMU maintains formal decommissioning plans that are periodically reviewed and guide the execution of the program. The financial objective for LMU is to achieve various planned milestones within the funding level established.

The Government of Canada approved \$513 million in funding for activities to be implemented over a five-year period ending in 2011. The program is governed through a Memorandum of Understanding (MOU) between AECL and Natural Resources Canada (NRCan). Under the MOU, NRCan has responsibility for policy direction and oversight, including control over program funding. AECL is responsible for implementing the work in a safe, compliant and cost effective manner. A major portion of the work will be subcontracted to the private sector, including design and construction activities.

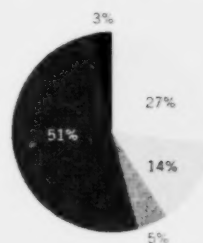
LMU 5-Year Projected
Waste Management and
Decommissioning Funding
\$513 million



Division Results

Progress on activities over the past year included continuation of two major waste management projects aimed at providing modern storage facilities for stored radioactive liquids and spent fuel wastes. The projects include a waste storage system known as the Liquid Waste Transfer and Storage project. In addition, design and engineering work scopes for the major systems of the Fuel Packaging and Storage project were awarded to third party suppliers. Commissioning of both projects is expected in 2011. Other activities undertaken in the year included the off-site disposal of mixed liquid waste, partial demolition of buildings at the Whiteshell site, commissioning and operation of the Waste Analysis Facility at Chalk River, as well as the ongoing monitoring and surveillance of facilities no longer in operation at Chalk River, Whiteshell and other sites.

As part of AECL's public policy role, AECL manages the Low-Level Radioactive Waste Management Office for the remediation of historic waste sites throughout Canada. This office is operated on a cost recovery basis for NRCan.



Decommissioning Liability
as of March 2008
\$3,008 million

- CRL Decommissioning – 27%
- WL Decommissioning – 14%
- Reactors – 5%
- Enabling Facilities – 51%
- Support & Other Costs – 3%

LMU (\$ millions)	Actual Results	
	2007-08	2006-07
Decommissioning funding	\$ 96	\$ 63
Cost recoveries from third parties & other	4	5
Total funding	\$ 100	\$ 68
Expenses	(168)	(152)
Net loss	\$ (68)	\$ (84)

Funding recognized for LMU during the year is \$96 million, compared to \$63 million in the previous year, reflecting a higher volume of work executed under the decommissioning and waste program. The expenses were also higher than the previous year, with accretion of \$155 million and changes in the decommissioning and waste management provision of \$13 million for a total expense of \$168 million, compared to \$152 million in the previous year. The accretion expense represents an increase in the net present value of the decommissioning and waste management liability due to the passage of time. This liability is reviewed annually and updated as required to reflect revised costs or schedules. Overall, LMU reported a net loss of \$68 million, an improvement of \$16 million from the previous year.

CASH FLOW AND WORKING CAPITAL

Sources and Uses of Cash

(\$ millions)	Actual Results	
	2007-08	2006-07
Cash from operating activities before ACR-1000 investment	\$ 106	\$ 178
Less: ACR-1000 development costs	87	69
Cash from operating activities after ACR-1000 investment	\$ 19	\$ 109
Cash used in investing activities	(108)	(95)
Cash from financing activities	16	4
Cash, cash equivalent and segregated cash		
(Decrease) increase	(73)	18
Balance at beginning of year	128	110
Balance at end of year	\$ 55	\$ 128

In 2007-2008, cash generated from operating activities before ACR-1000 investment was \$106 million. After applying \$87 million in ACR-1000 development costs, operating activities generated an inflow of \$19 million. This was \$90 million lower than the previous year, principally reflecting the use of customer advances received in prior years for fulfilment of commercial contractual obligations. Higher net expenses associated with Project New Lease activities under the Research and Technology Division also contributed to the decline in cash from operating activities.

Within operating activities, funds used for decommissioning and waste management include a \$2 million scheduled deposit to the *Nuclear Fuel Waste Act* trust fund, held by AECL on behalf of the Nuclear Waste Management Organization. As at March 31, 2008, the cumulative total for the fund, including interest, was \$23 million. The funds are deposited to meet the requirements of the long-term management of nuclear fuel waste in Canada. The annual deposit amounts are expected to continue at the same level in the future.

Investing activities involved an outlay of \$108 million compared to \$95 million in the previous year, reflecting an increased investment in property, plant and equipment in support of Research and Technology Division projects. The investment outflow included \$81 million for the continuing construction of the two MAPLE reactors and related isotope processing facility, together known as the Dedicated Isotope Facilities, as well as other ongoing capital projects. In 2007-2008, investing activities from the purchase and sale of short-term investments resulted in a net cash inflow of \$3 million to meet operational needs, compared to a net \$12 million cash outflow in the previous year.

Financing activities generated proceeds of \$17 million from parliamentary appropriations relating to capital expenditures. Other financing activities include the repayment of a long-term payable to the Government of Canada of \$1 million, reducing the liability to \$1 million as at March 31, 2008.

Overall, AECL's year-end closing cash position, including segregated cash, decreased to \$55 million from the previous year's level of \$128 million. Including short-term investments, the total cash position decreased to \$65 million compared to \$141 million in the previous year. Included in the cash position is \$50 million in net proceeds from heavy water sales, which is subject to a decision by the Government of Canada on the future application of these funds.

AECL's profit and cash flow performance over the past few years has been adversely affected by infrastructure costs required to maintain Chalk River operations. For 2008-2009, with the current cash balance and the expected appropriations of \$452 million from the federal government, AECL is expected to have sufficient working capital to meet operational requirements. Beyond 2008-2009, AECL has planned

a significant investment to upgrade and refurbish the Chalk River site in order to meet licensing conditions and other regulatory requirements. Financing of this investment is subject to review by the Government of Canada.

OFF-BALANCE SHEET ARRANGEMENTS

In the normal course of business, AECL enters into the following off-balance sheet arrangements:

- Bank guarantees and standby letters of credit used in connection with performance guarantees on major contracts. The guarantees generally relate to project and product performance and advance payments. In addition, AECL also guarantees that certain projects will be completed within a specified time, and if the Corporation does not fulfil its obligations, it will assume responsibility for liquidated damages. The aggregate amount of AECL's potential exposure under these guarantees and liquidated damages is estimated to be approximately \$501 million as at March 2008. Historically, AECL has not made any material payment on performance guarantees or on any liquidated damages. Management does not expect these guarantees to have a material impact on the consolidated financial statements of the Corporation.
- Indemnification arrangements are part of the standard contractual terms to counter-parties in transactions such as service agreements, sale and purchase contracts. These indemnification agreements may require AECL to compensate the counter-parties for costs incurred as a result of certain events. The nature of these indemnification agreements prevents AECL from making a reasonable estimate of the likely maximum amount to be paid out by AECL. Management does not expect these arrangements to have a material effect on the results of the consolidated financial statements of the Corporation.

OUTLOOK

Global electric power generation is projected to significantly increase over the next three decades. Nuclear power generation is a major contributor to global energy supply, with 439 operating reactors (source: EIA) worldwide, and that number is expected to grow significantly. Concerns regarding the diversity and security of energy supply, environmental pressures, climate change initiatives and aging energy generating assets, along with the prospect of improved economics, all indicate a promising future for construction of new nuclear generation capacity. AECL's CANDU nuclear technology, along with its capabilities in reactor construction, life extension and services, make it one of the few firms positioned to take full advantage of this opportunity.

AECL's marketing effort will focus on the immediate needs of the Canadian marketplace. The Ontario government has requested proposals from reactor vendors to build new nuclear generation facilities, and has given AECL and its partners the green light to compete for new-build nuclear using the ACR-1000 technology. Alberta and New Brunswick are also evaluating the construction of new nuclear reactors. AECL will ensure that resources are dedicated to meet market expectations for product performance and on time, on budget project delivery. Appropriate funding for the ACR-1000 will significantly contribute to its successful commercialization. As such, the federal government has budgeted \$100 million toward its development in 2008–2009.

Building on the recent success in Romania, AECL will continue to pursue opportunities for sales of the existing CANDU 6 product, which has a good track record for both project delivery and reliable operation. In the near-term, new CANDU 6 sales are expected in Romania and Argentina. As well, the outlook for life extension activities and recurring service work are promising, as utilities seek to enhance reliability, extend service life and optimize plant operations. Key business development initiatives include securing new life extension projects in existing CANDU 6 stations within five years of the 2008–2009 Corporate Plan.

While it is difficult to predict the precise timing for the sale of new-build reactors and life extension projects, opportunities in Canada and overseas provide a solid base for the future growth of the CANDU Reactor Division. As reflected in AECL's 2008–2009 Corporate Plan, sustained revenue growth is expected to be derived from life extension and new-build projects, which are forecasted to gather momentum from 2010–2011 onward. Through this revenue growth, it is expected that the CANDU Reactor Division will be able to invest commercial profits back into the business. It is also expected that as of 2010–2011, the Division will be self-funding and able to cover ACR-1000 investment requirements, while generating an improved return on investment for its Shareholder.

Within the Research and Technology Division, adequate funding is essential to maintain its infrastructure and ensure safe and effective support for Canada's nuclear industry and continued production of isotopes. The Government of Canada has budgeted funding for 2008–2009 totalling \$352 million for this purpose. These funds will be used to maintain operational performance levels aligned with nuclear industry standards, address the capital infrastructure requirements, contribute to securing the long-term supply of isotopes, and continue research activities directed by the Government of Canada.

The Government of Canada recently announced a review of AECL's business structure, the outcome of which will determine the strategic direction that AECL will pursue, and the appropriate level of federal support for AECL's R&D and related infrastructure requirements.

Consolidated Revenue
(\$ millions)



In summary, AECL's near-term corporate priorities are:

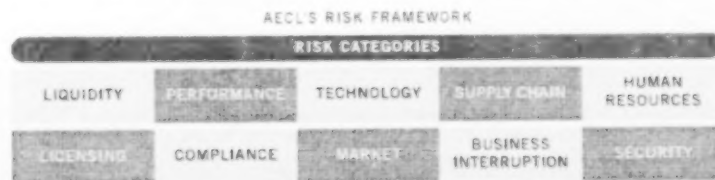
- Securing new life extension and reactor contracts
- Delivering on Project New Lease and Nuclear Legacy Liability Program commitments
- Meeting major life extension contract milestones
- Effectively managing the isotope business
- Achieving cash flow targets
- Developing ACR-1000 to meet market requirements

MANAGEMENT OF RISKS AND UNCERTAINTIES

AECL recognizes that risk management is an integral part of sound management practice and it is as much about identifying opportunities as avoiding or mitigating losses. To this end, AECL has adopted a formal enterprise risk management program that begins with the strategic and operational planning process. The program involves identifying risks that may prevent achievement of AECL's objectives, analyzing those risks, determining tolerance levels so as to avoid certain risks and transfer, mitigate or accept the remaining risks. At the operating level, proposed commitments undergo a formal risk review. The processes ensure continual review and monitoring of operational and corporate support risks, in addition to facilitating the efficient use of resources.

AECL's Board of Directors is responsible for overseeing the management of risks at AECL. The Chief Executive Officer is accountable to the Board of Directors for all risk-taking activities and risk management programs. The Corporation's internal auditors review, monitor and assess inherent operational risks and the effectiveness of internal controls. Both the internal and independent auditors report directly to the Audit Committee on audit findings.

While management is positive about the long-term outlook of the Corporation, AECL is subject to the risks identified in the following categories:



Liquidity – relates to AECL's ability to fund capital improvement projects and growth opportunities, and to meet contractual obligations and regulatory compliance obligations.

Long-Term Government of Canada Funding

A major risk facing the Corporation is accessing a sustainable source of funds to safely maintain Canada's nuclear capabilities and increase commercial value. Incremental funding in addition to the base appropriation levels is required for:

- ACR-1000 development
- R&D infrastructure and operations
- Isotope business and related activities
- Legacy waste liability

The Government budgeted funding for 2008–2009 to support the above programs. In addition, it is expected that the Shareholder, after completing its review of AECL's mandate and structure, will determine an appropriate level of ongoing federal support for AECL's activities. This will provide a more solid financial framework within which to plan for the future. In the interim, management has planned and prioritized its program for the year in progress within the budgeted funding level. This is to be consistent with the established corporate objectives and position AECL for success in the growing market for clean energy.

Working Capital Requirements

A significant portion of AECL's commercial revenue is derived from project management and product development activities that span several years from inception to completion. This stems mainly from the cost, complexity and regulation associated with these activities. As a result, planning and executing commercial projects may significantly impact working capital requirements on a temporary basis. Similarly, a delay in an expected contract may affect cash flow projections. As a Crown Corporation, AECL's ability to raise finance in commercial markets is restricted.

AECL manages these risks by negotiating contracts to ensure positive cash flow throughout the project and appropriate assignment of work scope with partners on projects. In addition, AECL's services business provides a more consistent stream of income that helps improve our working capital position.

Performance – relates to risk relating to meeting contractual requirements and stakeholder expectations.

There are considerable risks in managing AECL's major projects. These include ensuring that project execution is in accordance with contractual requirements and managing changes as a result of economic factors and government decisions. Failure to meet these contractual requirements in a timely manner may result in legal and financial obligations. In addition, complex products and services may require special guarantees or acceptance of completion risk, which could ultimately result in unplanned costs. Currently, AECL manages several reactor life extension projects. Technical and efficiency risks associated with these projects will continue to exist until completion.

AECL seeks to manage these risks through stringent project control mechanisms, rigorous review of contracts and ongoing monitoring and evaluation of progress. In addition, maintaining comprehensive insurance coverage for various aspects of a given project and developing effective relationships with related stakeholders are important aspects in the project management process. Despite these risks, AECL has delivered all major CANDU nuclear power projects it has managed over the last decade on time and on budget.

Technology – relates to the ability to advance technology and deliver our product and services to meet functional, economic or licensing requirements.

Commercialization of the ACR-1000

A significant strategic commitment in our business plan is to complete commercialization of the ACR-1000 reactor. Implementing the ACR-1000 commercialization plan requires that the product meet functionality, cost and performance parameters as well as licensing requirements. Furthermore, market timing, continued support of the federal government and customers, licensing preparation and an appropriate financing model and delivery structure are critical success factors. AECL manages the associated risks by closely monitoring progress and by carefully managing available resources in accordance with market conditions.

Dedicated Isotope Production Facilities

Under an agreement signed in 2006 with MDS Nordion in respect to a long-term arrangement for the supply of isotopes, AECL acquired beneficial ownership of two yet to be completed research reactors and a processing facility dedicated to isotope production, collectively known as the Dedicated Isotope Facilities (DIF). The 2006 agreement established October 31, 2008 as the deadline for certifying that the DIF had been completed and had met its specified performance criteria. However, the 2006 agreement also provided that MDS Nordion could not commence legal proceedings against AECL with respect to any failure on the part of AECL to meet the criteria by the deadline. Any claims that the parties had against each other under a previous agreement signed in 1996 would not be extinguished. In May 2008, AECL announced the decision to discontinue further work associated with the development of the MAPLE reactors. AECL will work with MDS Nordion and other stakeholders to examine the full range of potential solutions to maintain the long-term supply of medical isotopes.

Supply Chain – relates to availability of qualified suppliers to support AECL's activities, work stoppage and failure to perform according to contractual terms by subcontractors or suppliers.

The complex and stringent quality requirements associated with certain nuclear products and services significantly reduce the number of reliable suppliers available to AECL. The ability to establish a stable supply chain is crucial to AECL's ability to meet contractual requirements. In the context of major commercial contracts, unstable supply may result in contractual penalties, legal implications and associated costs that could affect project margins and AECL's financial position. AECL subcontracts a portion of the work or the supply of material and equipment to third parties. Failure by third parties to perform their portion of work in accordance with contractual terms may affect AECL's ability to perform and achieve anticipated profitability on a project.

AECL controls this risk by adhering to extensive quality standards, rigorous selection of third party subcontractors and suppliers, proactively monitoring project progress, and by obtaining performance guarantees. In addition, where practical, strategic alliances are developed to mitigate the risks of disruptions to supply.

Human Resources – relates to maintaining adequate levels of skilled human resources to meet customer requirements and advance technology capability.

AECL's ability to attract, retain and develop adequate levels of staff with the requisite skills and technical depth is paramount to achieving a long-term assurance of the safety, licensing and design basis for CANDU technology. The human resource risk stems from the changing demographics of scientific and technical staff industry-wide. Consequently, inadequate resources in terms of number of personnel and technical capability would affect our ability to achieve our business objectives and the desired financial results.

In order to reduce this risk, AECL is focusing on the development of staff in required technical disciplines. Also, AECL has in place an active hiring program to address loss of staff through demographics-based attrition, as well as a robust succession planning process. It will also work with partners in developing an integrated view of resource requirements over the near and medium term, thereby ensuring that its staff resources are optimally deployed to key commercial and technology development activities.

Licensing – relates to risk in obtaining and maintaining licences for nuclear facilities and new technologies.

AECL operates and conducts business in a highly regulated environment and is subject to various licensing requirements. Within the licensing regime, the preparation, construction, operation and decommissioning of nuclear related facilities are subject to separate CNSC licensing requirements. The stringent licensing requirements contribute to the safe and secure operation of nuclear facilities in Canada. However, they also contribute to an increased project timeframe and associated compliance and administrative costs.

AECL's nuclear facilities at its Chalk River site require nuclear related licences. Failure to obtain or maintain such licences would ultimately result in the facilities being shut down. Any inability to acquire licences for new technologies (such as the ACR-1000), would severely affect AECL's business prospects.

AECL mitigates this licensing risk through extensive monitoring of all licensing activities on an ongoing basis. In addition, AECL has in place well established environmental and quality management systems. In the case of the ACR-1000, AECL is proactive in working with the CNSC to expedite the pre-licensing process. In April 2008, the CNSC and AECL signed a Memorandum of Understanding that allows CNSC staff to start a pre-project design review of the ACR-1000 that will enhance the certainty of our project delivery schedule in Canada. The scope of the review has been grouped into three phases, with Phase 1 examining the Generic Safety Case Report that provides comprehensive information on the ACR-1000's design and safety analysis. Both AECL and the CNSC have identified employees who are working toward the program schedule and objectives. Also, AECL has positive interactions with key stakeholders and potential partners, and is actively seeking input on the ACR-1000 design from these stakeholders to support licensing.

Compliance – relates to AECL maintaining compliance with applicable laws, regulations and standards.

Applicable Laws and Regulations Related to Nuclear Facilities and Technologies

AECL is subject to constantly changing regulations that are becoming increasingly stringent. These are in the areas of health, safety, security and environment. Failure to comply with regulations may result in significant financial penalties and ultimately lead to licence suspension, thereby affecting AECL's ability to operate its nuclear facilities.

AECL controls this risk through its corporate oversight function, which ensures and assesses compliance with all applicable national and international technical quality assurance standards and the relevant aspects of the *Nuclear Safety and Control Act* and its regulations.

Furthermore, AECL has implemented several nuclear compliance programs that specifically address the deployment of due diligence processes and associated resources necessary to comply with all applicable laws and regulations.

Capability of Research Facilities

AECL's research laboratories operate major facilities including reactors, experimental loops, shielded facilities and waste management plants. These are used to conduct research and support commercial activities, including the isotope business. Facilities are subject to applicable laws and regulations relating to safety and environmental matters.

AECL seeks to manage the safety and environmental risks associated with its facilities through its Safety Management System, which includes numerous program controls, such as stringent safety reviews and audits. Where shortfalls are identified, appropriate corrective action plans are put in place. These controls provide assurance of compliance with all applicable laws and regulations.

Market – this relates to factors such as competition, political stability, public acceptance, offshore operations and third party credit.

Decision Cycles and Competitor Size

One of the major business risks relating to the nuclear industry is the very long decision cycles for new major projects. Furthermore, demand levels for AECL's products and services are affected by factors such as technology development, economic and social trends, and government policy initiatives.

In the project and services businesses, AECL faces powerful competitors. These competitors have large non-contestable home markets and are publicly traded corporations that have the ability to raise debt and form equity partnerships.

To moderate competitive threats, AECL is establishing new strategic business alliances, increasing its full service capability, pursuing the reactor life extension business, commercializing newly developed technologies and carefully managing the portfolio of existing product lines. AECL has programs in place to retain and build core competencies to support AECL's corporate objectives and business opportunities.

Exposure to Foreign Operations

As AECL operates globally with sales and project offices in multiple jurisdictions, it is subject to risks associated with doing business outside Canada. Foreign operations involve inherent financial risks that include taxes, currency controls and fluctuations. AECL mitigates the risk through specific contractual requirements and obtains government rulings to reduce the financial impact of such risks when possible. Sales and purchases are made mainly in Canadian dollars. In addition, where large foreign currency purchase commitments exist, forward contracts reduce exposure. AECL is also subject to economic factors and government decisions in the countries in which AECL does business. Obtaining sovereign and third party guarantees has been part of our risk management strategy to reduce the adverse impact of changes in these conditions.

Third Party Credit

Credit risk relates to the risk of loss due to a customer's inability to secure financing for new-build reactors or fulfil payment obligations or to a supplier's inability to deliver on commitments because of their weak financial position. However, in the context of customers, the overall risk is limited as AECL's customer base is primarily comprised of large corporations and government related entities, which offer sovereign guarantees in their support.

Non-compliance, AECL mitigates this risk by verifying customer and supplier solvency and requesting a letter of credit arrangement from those considered a certain level of credit risk. Major contracts are usually structured to provide for progress payments and positive cash flow.

Public Perception of Nuclear Technology

Adverse public perception could affect progress on AECL's business activities. In Canada, public consultations are a mandatory part of the environmental assessment process. Nuclear related environmental assessments are generally initiated through CNSC licensing requirements. Adverse public perception could give rise to AECL delaying or ceasing certain business activities and affect AECL's reputation.

AECL mitigates this risk through proactive public information programs to inform the public on safety measures and risks associated with nuclear activities. Also, AECL and organizations with which it has affiliations, such as the Canadian Nuclear Association, inform the public through advertising of nuclear energy benefits and conduct surveys to obtain public feedback.

Business Interruptions – AECL is subject to risks associated with disrupted operations. These risks may arise from a number of circumstances, such as regulatory non-compliance, labour disruptions, fire, weather, facility malfunction and other risks associated with facilities and business operations. AECL reduces these risks by using an extensive management system and conducting regular audits.

There is business risk associated with the availability of facilities. In particular, the NRL facility, after 50 years of successful operation, has performed beyond its original estimated life, mainly as a result of an effective maintenance and upgrading program. Any risk to the continued operation of the NRU entails a risk to the supply of isotopes.

During 2007–2008, the NRU experienced an extended shutdown. As a result, isotope production and sales were temporarily disrupted. AECL and the CNSC are reviewing the events leading up to this shutdown and corrective measures as required will be implemented to minimize similar disruptions in the future.

Fitness of AECL's facilities is ensured by a prudent program of equipment and facility maintenance, such as investment in NRU safety upgrades. To further mitigate these risks, AECL has put together an infrastructure renewal program called Project New Lease. Government funding support for this program has been received to cover planned expenditures for 2008–2009. Further investment requirements including those to maintain the NRU licence have been identified in Project New Lease.

Security – relates to the potential breach in security of AECL sites, facilities, physical assets, personnel and information.

Nuclear technology and facilities are subject to higher than normal levels of security. A breach in security may result in unauthorized transfer of technology, disclosure of sensitive business information or harm to personnel. It may also have safety implications at nuclear facilities that could impact AECL's nuclear-related licences and ability to competitively operate its business.

AECL reduces this risk through the implementation of increased security measures and maintains strict controls and operating procedures.

All of the above risks have the potential to damage AECL's reputation and hinder the attainment of strategic objectives. Mitigating processes include effective communication with stakeholders, the implementation of policies addressing business conduct and ethics, developing business recovery plans, ensuring transparency and practicing good corporate governance.

The above sections summarize the principles and uncertainties that could affect AECL's future business results going forward and associated risk mitigation activities. In the coming year, AECL will continue to implement enhancements in the existing risk management process in order to achieve a more integrated approach to managing and monitoring risk throughout AECL.

ACCOUNTING POLICY CHANGES

The Corporation has adopted four new Canadian Institute of Chartered Accountants (CICA) accounting standards, effective April 2007. The implications are highlighted in the Notes to the Consolidated Financial Statements.

- CICA Handbook Section 1530, Comprehensive Income
- CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement
- CICA Handbook Section 3861, Financial Instruments – Disclosure and Presentation
- CICA Handbook Section 3865, Hedges

FUTURE ACCOUNTING POLICY CHANGES

The Corporation will adopt the following new accounting standards effective April 2008 (See Note 2 in the Consolidated Financial Statements):

- Capital Disclosures (CICA Handbook Section 1535)
- Financial Instruments – Disclosures (CICA Handbook Section 3862)
- Inventories (CICA Handbook Section 3031)

The impact of the above new standards on AECL's Consolidated Financial Statements is being assessed.

ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS IN CANADA

In 2006, the Canadian Accounting Standards Board (AcSB) adopted a framework that requires the use of International Financial Reporting Standards for Canadian publicly accountable enterprises. These standards are issued by the International Accounting Standards Board. Under the AcSB's plan, the new framework will be effective for fiscal years beginning on or after January 1, 2011. AECL intends to implement the framework within the above timeframe.

CRITICAL ACCOUNTING ESTIMATES AND POLICIES

AECL's accounting policies are developed in accordance with Canadian Generally Accepted Accounting Principles. Critical accounting policies are considered to be the most important in determining AECL's financial condition and results. They also require significant subjective judgment by management. A summary of the Corporation's significant accounting policies, including the critical ones discussed below, is set out in the Notes to the Consolidated Financial Statements.

Revenue Recognition

AECL generates a significant portion of its revenue from long-term contracts. This revenue is recognized using the percentage of completion method, whereby revenue is recorded as related costs are incurred, relative to estimated total contract costs. The nature of this accounting method is such that refinements of the estimating process for changing conditions and new developments are continuous. Accordingly, revisions in cost and earnings estimates throughout the duration of a contract term are reflected in the period in which the need for revision becomes known. Additionally, losses on long-term contracts are recognized in the period in which they are identified, and are based upon the anticipated excess of contract costs over the related contract revenues. Any such losses are recorded as a component of cost of sales. Revenue from services sales is recorded when services are rendered and goods are shipped. Revenue from heavy water shipments is recognized when the shipment is delivered in accordance with the requirements of the contract.

Asset Impairment

AECL reviews its long-lived assets, including property, plant and equipment for impairment whenever circumstances indicate that the carrying amount of the asset may not be recoverable. Determination of recoverability is based on an estimate of undiscounted future cash flows, and measurement of an impairment loss is based on the fair value of the assets. Estimated undiscounted future cash flows reflect management's best estimates and changes in those estimates could materially affect the carrying amount of the long-lived assets. As a result of the asset impairment review, AECL determined that the carrying value of property, plant and equipment and inventory relating to the DIF project was in excess of its associated estimated undiscounted future cash flows. Consequently, the assets were written down as described in Note 8 of the Consolidated Financial Statements.

Heavy Water Inventory

Heavy water inventory is recorded as a long-term asset as the lead-time required in relation to future reactor sales exceeds one year. A provision has been made for depreciation and upgrading of the inventory.

Parliamentary Appropriations

Parliamentary appropriations that are not in the nature of contributed capital are recorded as funding in the year for which they are appropriated, except as follows:

- Appropriations restricted by legislation and related to expenses of future periods are deferred and recognized as funding in the period in which the related expenses are incurred
 - Appropriations used for operating activities are recognized as funding in the income statement to offset costs incurred
 - Appropriations used for the purchase of property, plant and equipment are deferred and amortized on the same basis as the related asset.
- The balance of deferred capital funding, as at March 2008, amounted to \$55 million compared to \$40 million in the previous year.

Commencing in 1996-1997, and pursuant to a 10-year arrangement with the Treasury Board for funding decommissioning activities, AECL retains the net proceeds from the sale or lease of Government funded heavy water inventory. This funding arrangement, however, expired on April 1, 2006, and the proceeds received since that date are currently retained on the balance sheet, pending a decision from the Government of Canada.

Decommissioning and Waste Management

Decommissioning and waste costs are recorded as a long-term liability. The liability is recorded based on the discounted value of the estimated future decommissioning and waste management expenditures to the extent that they can be reasonably estimated. The provision is reviewed annually to reflect actual expenditures incurred and changes in management's estimate of the future costs and timing thereof. The liability disclosed includes waste generated after March 31, 2006, for which AECL is financially responsible.

MANAGEMENT'S RESPONSIBILITY

The consolidated financial statements, all other information presented in this Annual Report and the financial reporting process are the responsibility of management. These statements have been prepared in accordance with Canadian generally accepted accounting principles and include estimates based on the experience and judgment of management.

Where alternate accounting methods exist, management has chosen those it deems most appropriate in the circumstances. The Corporation and its subsidiaries maintain books of account, financial and management control, and information systems, together with management practices designed to provide reasonable assurance that reliable and accurate financial information is available on a timely basis, that assets are safeguarded and controlled, that resources are managed economically and efficiently in the attainment of corporate objectives, and that operations are carried out effectively.

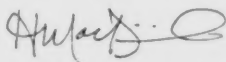
These systems and practices are also designed to provide reasonable assurance that transactions are in accordance with Part X of the *Financial Administration Act* (FAA) and its regulations, as well as the *Canada Business Corporations Act*, the articles, and the by-laws and policies of the Corporation and its subsidiaries. The Corporation has met all reporting requirements established by the FAA, including submission of a Corporate Plan, an operating budget, a capital budget and this Annual Report.

The Corporation's internal auditor has the responsibility of assessing the management systems and practices of the Corporation and its subsidiaries. AECL's independent auditors conduct an audit of the consolidated financial statements of the Corporation and report on their audit to the Minister of Natural Resources.


The Board of Directors is responsible for ensuring that management fulfills its responsibility. To accomplish this, the Board has established three standing committees: Audit, Human Resources and Governance, and Science and Technology.

The Audit Committee, composed of independent directors, has a mandate for overseeing the independent auditors, directing the internal audit function and assessing the adequacy of AECL's business systems, practices and financial reporting. The Audit Committee meets with management, the internal auditor and independent auditors on a regular basis to discuss significant issues and findings, in accordance with their mandate.

The independent auditors and internal auditor have unrestricted access to the Audit Committee, with or without management's presence. The Audit Committee reviews the consolidated financial statements and the Management's Discussion and Analysis report with both management and the independent auditors before they are approved by the Board of Directors and submitted to the Minister of Natural Resources. The Chair of the Audit Committee signs the audited financial statements.



HUGH MacDIARMID
President and Chief Executive Officer



MICHAEL ROBINS
Chief Financial Officer

AUDITORS' REPORT

To the Minister of Natural Resources

We have audited the consolidated balance sheet of Atomic Energy of Canada Limited as at March 31, 2008 and the consolidated statements of operations, changes in shareholder's deficit, comprehensive income and cash flow for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

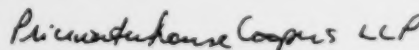
In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, we report that, in our opinion, these principles have been applied, except for the change in accounting policies resulting from the adoption of the new financial instruments sections as described in Note 2 to the consolidated financial statements, on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation and of its wholly-owned subsidiaries that have come to our notice during our audit of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Business Corporations Act*, and the articles and by-laws of the Corporation and its wholly-owned subsidiaries.

Pursuant to paragraph 132(2)(b) of the *Financial Administration Act*, we wish to bring an other matter to Parliament's attention. As described in Note 20 to the consolidated financial statements, the 2007–2008 to 2011–2012 Corporate Plan received the required Governor in Council approval on June 5, 2008. The Corporate Plan sets out the strategic direction and budgets for the Corporation and is of particular importance to the Corporation given the significance of government funding and major on-going initiatives.



NANCY Y. CHENG, FCA
Assistant Auditor General
for the Auditor General of Canada



PRICEWATERHOUSECOOPERS LLP
Chartered Accountants, Licensed Public Accountants

Ottawa, Canada
June 11, 2008

CONSOLIDATED BALANCE SHEET

As at March 31

(Thousands of dollars)

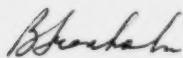
2008

2007

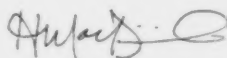
Assets		
Current		
Cash and cash equivalents (Note 3)	\$ 3,487	\$ 100,453
Short-term investments (Note 3)	10,059	13,219
Segregated cash (Notes 3 and 15)	51,642	27,141
Accounts receivable (Note 18)	92,258	120,219
Current portion of long-term receivables (Note 5)	16,983	16,138
Current portion of inventory (Note 4)	22,581	23,441
	197,010	300,611
Long-term receivables (Note 5)	207,601	224,873
Trust fund (Note 6)	23,117	20,057
Inventory (Note 10)	-	41,704
Heavy water inventory (Note 7)	294,939	298,524
Property, plant and equipment (Note 8)	142,476	245,850
	\$ 865,143	\$ 1,131,619
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 156,600	\$ 133,205
Current portion of customer advances and provisions	285,058	296,230
Current portion of decommissioning and waste management provision (Note 12)	103,900	101,300
Current portion of long-term payables (Note 9)	7,160	1,000
	552,718	531,735
Decommissioning and waste management provision (Note 12)	2,904,336	2,826,634
Customer advances and provisions	11,885	22,113
Deferred capital funding (Note 8)	54,731	40,035
Deferred decommissioning and waste management funding (Notes 12 and 15)	51,642	27,141
Employee future benefits (Note 14)	60,649	56,698
Long-term payables (Note 9)	41,431	46,672
	3,677,392	3,551,028
Commitments and contingencies (Note 17)		
Shareholders' deficit		
Capital stock		
Authorized - 75,000 common shares		
Issued - 54,000 common shares	15,000	15,000
Contributed capital (Note 15)	404,234	432,408
Deficit	(3,231,264)	(2,866,817)
Accumulated other comprehensive income	(219)	-
	(2,812,249)	(2,419,409)
	\$ 865,143	\$ 1,131,619

The accompanying notes are an integral part of these consolidated financial statements

Approved on behalf of the Board:



BARBARA TRENHOLM
Director



HUGH MacDIARMID
Director

CONSOLIDATED STATEMENT OF OPERATIONS

For the year ended March 31

(Thousands of dollars)

2008

2007

CANDU Reactor Division

Revenue

Nuclear products and services	\$ 541,105	\$ 513,533
Interest on long-term receivables (Note 5)	13,311	14,224
Interest on investments and other (Note 3)	3,471	4,904
	557,887	532,661

Expenses

Cost of sales and operating expenses (Note 11)	508,185	452,855
Interest on long-term payables (Note 9)	37	77
	508,222	452,932

CANDU Reactor Division net income before investment in ACR-1000

49,665 **79,729**

Investment in ACR-1000 development

Parliamentary appropriations (Note 13)	37,500	-
Development costs (Note 11)	86,706	69,050

CANDU Reactor Division net income

459 **10,679**

Research & Technology Division

Revenue

Services	41,288	40,580
	41,288	40,580

Funding

Parliamentary appropriations (Note 13)	143,492	105,491
Cost recovery from third parties	16,644	15,223
Amortization of deferred capital funding	2,409	2,474
	162,545	123,188

Expenses

Cost of sales and operating expenses (Note 11)	252,113	232,059
Interest on long-term payables (Note 9)	1,919	1,843
	254,032	233,902

Research & Technology Division net loss before impairment of long-lived assets

(50,199) **(70,134)**

Impairment of long-lived assets (Note 8)	246,946	-
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Research & Technology Division net loss

(297,145) **(70,134)**

Liability Management Unit

Funding

Decommissioning funding	96,095	62,993
Cost recovery from third parties and other (Note 16)	4,234	5,451
	100,329	68,444

Expenses

Revision in estimate and timing of expenditures	13,255	(145)
Accretion and other expenses	154,835	152,357
	168,090	152,212

Liability Management Unit net loss

(67,761) **(83,768)**

Net loss

\$ (364,447) **\$ (143,223)**

Amortization disclosure (Note 8)

The accompanying notes are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' DEFICIT

For the year ended March 31

CONTRIBUTED CAPITAL

(thousands of dollars)	2008	2007
Balance at beginning of the year	\$ 432,408	\$ 457,446
Transfer to deferred decommissioning funding (Note 15)	(24,501)	(24,501)
Transfer to repayable contributions (Note 15)	(3,673)	(537)
Balance at end of the year	\$ 404,234	\$ 432,408

DEFICIT

(thousands of dollars)	2008	2007
Balance at beginning of the year	\$ (2,866,817)	\$ (2,723,594)
Transition adjustment on adoption of financial instruments accounting standards (Note 2)	-	-
Balance at beginning of the year, as restated	\$ (2,866,817)	\$ (2,723,594)
Net loss	(364,447)	(143,223)
Balance at end of the year	\$ (3,231,264)	\$ (2,866,817)

ACCUMULATED OTHER COMPREHENSIVE INCOME/(LOSS)

(thousands of dollars)	2008
Balance at beginning of the year	\$ -
Transition adjustment on adoption of financial instruments accounting standards (Note 2 and 18)	213
Other comprehensive loss for the year	(432)
Balance at end of the year	\$ (219)

The accompanying notes are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

For the year ended March 31

(thousands of dollars)	2008
Net loss	\$ (364,447)
Other comprehensive loss	
Net loss designated as cash flow hedges (Note 18)	(332)
Reclassification to income of gains on derivatives designated as cash flow hedges	(100)
Other comprehensive loss	(432)
Comprehensive loss	\$ (364,879)

The accompanying notes are an integral part of these consolidated financial statements

CONSOLIDATED CASH FLOW STATEMENT

For the year ended March 31

(thousands of dollars)

	2008	2007
Operating activities		
Cash receipts from customers	\$ 635,017	\$ 703,971
Cash receipts from parliamentary appropriations	182,092	105,491
Cash receipts for decommissioning and waste management activities	97,304	58,548
Cash paid to suppliers and employees	(804,017)	(699,412)
Funds used for decommissioning activities	(94,873)	(64,512)
Interest on investments received (net)	3,434	4,827
Cash from operating activities	18,957	108,913
Investing activities		
Purchase of short-term investments	(13,720)	(23,111)
Sales and maturities of short-term investments	16,880	11,245
Acquisition of property, plant and equipment	(110,882)	(83,520)
Cash used in investing activities	(107,722)	(95,386)
Financing activities		
Proceeds from government for capital funding	17,300	5,092
Repayment of long-term payable	(1,000)	(1,000)
Cash from financing activities	16,300	4,092
Cash, cash equivalents and segregated cash:		
(Decrease) Increase	(72,465)	17,619
Balance at beginning of the year	127,594	109,975
Balance at end of the year	\$ 55,129	\$ 127,594
Interest and bank charges paid during the year	\$ 107	\$ 144

As at March 31

(thousands of dollars)

	2008	2007
Cash, cash equivalents and segregated cash are comprised of:		
Cash and short-term money market instruments	\$ 3,487	\$ 100,453
Segregated cash	51,642	27,141
	\$ 55,129	\$ 127,594

The accompanying notes are an integral part of these consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

1. The Corporation

Atomic Energy of Canada Limited (collectively "AECL" or the "Corporation") was incorporated in 1952 under the provisions of the *Canada Corporations Act* (and continued in 1977 under the provisions of the *Canada Business Corporations Act*), pursuant to the authority and powers of the Minister of Natural Resources under the *Nuclear Energy Act*.

The Corporation is a Schedule III Part I Crown Corporation under the *Financial Administration Act* (FAA) and an agent of Her Majesty the Queen in Right of Canada. As a result, AECL's liabilities are ultimately liabilities of Her Majesty in Right of Canada. The Corporation receives funding from the Government of Canada and is exempt from income taxes in Canada. As required by the FAA, the Corporation submits annually its Corporate Plan, operating and capital budgets to the government for its review and approval. The Treasury Board has approved an annual operating and capital budget for the Corporation each year up to, and including, the 2006-2007 fiscal year. Subsequent to March 31, 2008, the Government approved the Plan for 2007-2008.

AECL conducts its business through three divisions: CANDU Reactor Division, Research and Technology Division, and the Liability Management Unit. These divisions represent strategic business units established by senior management to facilitate the achievement of the Corporation's long-term objectives, to aid in resource allocation decisions and to assess operational and financial performance.

2. Significant Accounting Policies

The Corporation's financial statements are prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies are:

a) Basis of Presentation

These consolidated financial statements include the accounts of the Corporation's wholly-owned subsidiaries, AECL Technologies Inc., incorporated in the state of Delaware, U.S.A. in 1988, AECL Technologies B.V., incorporated in the Netherlands in 1995, and has consolidated its interest in a trust fund for which it is the primary beneficiary. All inter-company transactions have been eliminated.

b) Use of Estimates

The Corporation's financial statements include estimates and assumptions made by management that affect the amounts reported in the financial statements and accompanying notes. Estimates are based on a number of factors, including historical experience, current events and actions that the Corporation may undertake in the future, and other assumptions that management believes are reasonable under the circumstances. Actual results may differ significantly from these estimates.

The more significant areas requiring the use of estimates are heavy water inventory, costs of future decommissioning and waste management, future contract costs, revenue, derivatives, employee future benefits and amortization of property, plant and equipment. The Corporation reviews these estimates annually.

c) Cash, Cash Equivalents and Short-Term Investments

Investments with maturities of 90 days or less from the date of purchase are presented as cash equivalents. Short-term investments have original maturities greater than 90 days but less than one year. Cash equivalents and short-term investments are designated as held for trading and recorded at fair value.

d) Trust Fund

Long-term investments in the Trust Fund established pursuant to the *Nuclear Fuel Waste Act* are designated as held for trading and measured at fair value.

e) Foreign Currency Translation

Transactions denominated in a foreign currency are translated into Canadian dollars at the exchange rate in effect at the date of the transaction. Monetary assets and liabilities outstanding at the balance sheet date are adjusted to reflect the exchange rate in effect at that date. Exchange gains and losses arising from the translation of foreign currencies are included in income.

f) Derivative Financial Instruments

The Corporation enters into foreign exchange forward contracts to manage its exposure to changes in exchange rates arising from contractual terms and ongoing business operations. The Corporation's policy is not to utilize derivative financial instruments for trading or speculative purposes.

The Corporation formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and

liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Corporation also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of hedged items.

Hedge accounting is applied when the derivative instrument is designated as a hedge and is expected to be effective throughout the life of the hedged item. The fair value of such derivative instrument is included in accumulated other comprehensive income (AOCI) and changes to the fair value (unrealized gain or loss) are recorded on the Consolidated Statement of Comprehensive Income as other comprehensive income (OCI). When a derivative hedging relationship expires, the designation of a hedging relationship is terminated, or a portion of the hedging instrument is no longer effective, any associated gains or losses included in AOCI are recognized in the current period's Consolidated Statement of Operations. The same is applied to foreign exchange forward contracts used to hedge anticipated foreign currency sales and purchases.

g) Inventory

Heavy water is valued at the lower of average cost and net realizable value. Supplies and reactor fuel are valued at the lower of average cost and net replacement cost.

h) Property, Plant and Equipment

Property, plant and equipment are recorded at cost less amortization. Construction in progress is not amortized until ready for use. When complete, the asset is transferred to the appropriate category and amortized at the rate applicable to that category. Asset retirement costs are included as part of the related asset costs. Amortization is provided on a straight-line basis over the estimated useful life of the asset, and on a usage basis for certain machinery and equipment used in commercial projects, as follows:

<i>Land improvements</i>	<i>10 to 20 years</i>
<i>Buildings and reactors</i>	<i>20 to 40 years</i>
<i>Machinery and equipment</i>	<i>3 to 20 years</i>

i) Impairment of Long-Lived Assets

AECL reviews long-lived assets whenever events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable. An impairment loss, if any, is recognized when the carrying amount of a long-lived asset is not recoverable and exceeds its fair value. Fair value is calculated using an expected present value technique.

j) Customer Advances

To properly match revenues with costs, certain contracts may have revenue recognized in excess of billings (unbilled revenues), and other contracts may have billings in excess of revenue recognized (customer advance payments). Unbilled revenues are recorded as an asset and grouped with accounts receivable. Billings collected in advance on contracts are recorded as a liability and recognized in accordance with the Corporation's revenue recognition policy.

k) Decommissioning and Waste Management Provision

AECL provides for its legal obligation to decommission nuclear facilities and to manage nuclear waste in order to satisfy regulatory requirements. The obligation is recognized at fair value in the period when a reasonable estimate can be determined. As the provision is recorded based on a discounted value of the projected future cash flows, it is increased annually to reflect the passage of time by removing one year's discount. The accretion is charged to expense in the Consolidated Statement of Operations.

The provision is reduced by actual expenditures incurred. The cost estimate is subject to periodic review and any material changes in the estimated amount or timing of the underlying future cash flows are recorded as an adjustment to the provision. Upon settlement of the liability, a gain or loss will be recorded. The provision includes future construction costs associated with certain enabling facilities, such as disposal facilities for nuclear waste.

Decommissioning costs of new assets are added to the carrying amount and amortized over the related assets' useful life.

l) Revenue Recognition

Long-Term Contracts and Service Contracts

Revenue is derived from sales of the Corporation's services and products to clients. Revenue under certain long-term contracts, many of which provide for periodic payments, are recognized under the percentage-of-completion method using the ratio of cost incurred to total estimated cost as the measure of performance. When adjustments in contract value or estimated costs are determined, any changes from the prior estimates are generally reflected in earnings in the current period. Anticipated losses on contracts are charged to earnings when identified and determined to be likely. Revenue under cost-reimbursement contracts are recorded as costs are incurred and include an estimate of fees earned. Revenue under all other contracts are recognized when services are performed.

Supply of Product

Revenue is recognized based on shipments of product to end customers, supported by evidence of invoicing and shipping documents.

Interest Revenue

Interest entitlement under a long-term receivable is recognized as revenue over the term of the related agreement and categorized as an operating activity on the Cash Flow Statement.

m) Research and Development

Research and Development (R&D) costs include direct and indirect costs such as: salaries, wages and other related costs of personnel engaged in R&D activities, the cost of materials and services consumed in R&D activities, amortization of equipment and facilities to the extent that they are used for R&D activities, overhead support costs related to R&D activities, and other costs related to R&D activities such as amortization of patents and licences.

Research expenses are expensed as incurred. Development charges are expensed unless they meet the generally recognized criteria for deferral: the product or process is clearly defined and the attributable costs are identifiable, technical feasibility of the product or process has been established, management intends to produce and either market or use the product or process, a market for the product or process is clearly defined or its usefulness to the enterprise has been established, and adequate resources exist, or are expected to be available, to complete the project.

R&D costs incurred to discharge long-term waste management and decommissioning obligations for which specific provisions have already been made are charged to the related liability.

n) Parliamentary Appropriations

Parliamentary appropriations that are not in the nature of contributed capital are recorded as funding in the year for which they are appropriated, except as follows: appropriations restricted by legislation and related to expenses of future periods are deferred and recognized as funding in the period in which the related expenses are incurred, and appropriations used for the purchase of property, plant and equipment are recorded as deferred capital funding and amortized on the same basis as the related asset. From 1997 to 2006, and pursuant to the 10-year arrangement for funding decommissioning activities, the Corporation retained cash proceeds from the sale or lease of the portion of heavy water inventory that was funded by the Government of Canada. The cash proceeds were transferred from contributed capital to deferred decommissioning funding and were then recorded as funding in the Consolidated Statement of Operations as related expenditures were incurred. Proceeds from sales made during the 10-year arrangement that are received after April 1, 2006 are transferred from contributed capital to deferred decommissioning funding.

o) Cost Recovery from Third Parties

The Corporation and the Canadian nuclear utilities (Ontario Power Generation, New Brunswick Power, Hydro-Québec and Bruce Power L.P.) have a common interest in the safe, efficient and economical use of power utilizing CANDU (CANada Deuterium Uranium) technology. Research programs within the Research and Technology Division aligned with these objectives are undertaken by the Corporation and cost-shared with the utilities. In addition, AECL operates the Low-Level Radioactive Waste Management Office through the Liability Management Unit (LMU) on a cost-recovery arrangement with Natural Resources Canada (NRCan). Funding under these arrangements is recorded as cost recovery from third parties and is recognized as the related expenses are incurred.

p) Pension Plan

Employees of the Corporation participate in the Public Service Pension Plan (PSPP) administered by the Government of Canada. Although the PSPP is a defined benefit plan, the Corporation is not required under present legislation to make contributions with respect to actuarial deficiencies of the Plan. Therefore, contributions to the Plan are limited to those made by the employees and the Corporation on account of current service. These contributions represent the total pension obligations of the Corporation and are charged to income on a current basis.

q) Other Employee Future Benefits

The Corporation provides certain termination benefits for current employees pursuant to collective agreements and conditions of employment. Other benefits include Workers' Compensation claims for which the Corporation reimburses Human Resources and Social Development Canada in accordance with the *Government Employee's Compensation Act* for current payments billed by the provincial compensation boards.

The Corporation accrues the cost of these employee future benefits over the periods in which the employees earn the benefits. The cost of employee future benefits earned by employees is actuarially determined using the Unit Credit Actuarial cost method prorated on length of service and management's best estimate of salary escalation, retirement ages of employees and expected employee turnover.

r) Variable Interest Entities

A variable interest entity (VIE) is an entity in which the equity invested is not sufficient to permit that entity to finance its activities without external support, or, the equity investors lack voting control, an obligation to absorb future losses, or the right to receive future returns. The primary beneficiary of a VIE is the enterprise that will absorb a majority of the VIE's expected losses, receive a majority of its expected returns, or both. The Corporation has examined its business arrangements and has concluded that there is no significant interest in VIE's with the exception of the Trust Fund (Note 6) which has been consolidated.

Adoption of New Accounting Standards

On April 1, 2007, AECL adopted four new accounting standards that were issued by the Canadian Institute of Chartered Accountants (CICA): Handbook Section 1530, Comprehensive Income; Handbook Section 3855, Financial Instruments – Recognition and Measurement; Handbook Section 3861, Financial Instruments – Disclosure and Presentation; and Handbook Section 3865, Hedges. AECL adopted these standards prospectively, and, as such, comparative amounts for prior periods have not been restated in accordance with the new accounting policies.

Comprehensive Income

A new category, accumulated other comprehensive income (AOCI), was added to shareholders' deficit in the Consolidated Balance Sheet. Comprehensive income consists of net income and other comprehensive income (OCI). This category includes changes in the fair value of the effective portion of cash flow hedging instruments. Amounts are recorded in OCI until the criteria for recognition in the Consolidated Statement of Operations are met.

The impact of adopting the new accounting policies as at April 1, 2007 was an increase in AOCI of \$0.2 million, related to the recognition of the effective portion of cash flow hedging relationships. Accounts receivable also increased by \$0.2 million as a result of the transition.

Financial Instruments – Recognition and Measurement

The following table presents the classification of AECL's financial instruments in the various categories:

<i>Category</i>	<i>Financial Instruments</i>
Financial assets and liabilities held for trading	Trust fund Cash equivalents Short-term investments Segregated cash
Financial assets held to maturity	Not applicable
Available for sale financial assets	Not applicable
Loans and receivables	Accounts receivable Long-term receivables
Other financial liabilities	Accounts payable and accrued liabilities Customer advances and provisions Long-term payables

Loans and receivables and other financial liabilities are measured at amortized cost, including debt premiums, discounts and issue expenses.

Financial assets and liabilities held for trading are recorded at fair value at the balance sheet date. Gains and losses arising from changes in fair value are recognized in net income for the period in which they occur, except in the case of derivative instruments designated as hedges in a cash flow hedging relationship. Transaction costs are expensed as incurred for financial instruments classified or designated as held for trading. This designation by the Corporation requires that the financial instrument be reliably measurable, and eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities.

AECL classifies the investment in the *Nuclear Fuel Waste Act* trust fund as held for trading (measured at fair value) as the Fund Manager (CIBC) is permitted to trade within the approved investment guidelines to generate adequate returns. Interest earned is netted against Accretion and Other expenses on the Consolidated Statement of Operations since the Decommissioning and Waste Management provision includes the obligations under the Act.

Hedges

The new standard specifies the criteria under which hedge accounting can be applied and how hedge accounting is to be executed for each of the permitted hedging strategies: fair value hedges, cash flow hedges and hedges of a foreign currency exposure of a net investment in a self-sustaining foreign operation. In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging derivative is recognized in OCI. The ineffective portion is recognized in net income. The amounts recognized in AOCI are reclassified to net income in the periods in which net income is affected by the variability in the cash flows of the hedged item.

AECL enters into hedge contracts with major financial institutions to manage the Corporation's exposure to foreign currency movements. Foreign exchange translation gains and losses on these foreign currency denominated derivative contracts are recognized as an adjustment to the purchase price of the commodity or goods received.

At the inception of a hedging relationship, AECL documents the relationship between the hedging instrument and the hedged item, its risk management objective and its strategy for undertaking the hedge. The Corporation documents, both at hedge inception and on an ongoing basis, whether or not the derivatives that are used in hedging transactions are effective in offsetting the changes attributable to the hedged risks. Unrealized gain or loss on effective foreign exchange hedges is recognized as OCI. Any ineffective portion of the unrealized gain or loss on hedging is recognized immediately in net income. A hedge is effective when the critical terms (the amount and the timing of payment) of the transactions is matched by the hedge or is within the ratio of 80% to 125% when comparing the fair value of the hedge against the change in fair value of the cash flow of the underlying transactions. Currently, all AECL's forward hedges meet the CICA qualitative assessment as effective hedging. AECL policy forbids speculative activity. With respect to other derivatives, AECL has reviewed relevant contracts to determine if any unusual pricing or inflation adjustment clauses exist that would constitute, implicitly or explicitly, an embedded derivative. The Corporation elected April 1, 2003 as the transition date for embedded derivatives. It was determined there were no material embedded derivatives in contracts that should be accounted for separately.

Hedge accounting is applied when the derivative instrument is designated as a hedge and is expected to be effective throughout the life of the hedged item. When a derivative hedging relationship is expired, the designation of a hedging relationship is terminated, or a portion of the hedging instrument is no longer effective, any associated gains or losses included in AOCI are recognized in income in the current period's Consolidated Statement of Income.

The fair values of hedging instruments designated as cash flow hedges were recognized in the opening AOCI.

Future Changes in Accounting Policies

Capital Disclosures

The CICA issued a new accounting standard, Handbook Section 1535, Capital Disclosures, which requires the disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate a company's objectives, policies and processes for managing capital. This new standard is effective for AECL beginning April 1, 2008. AECL is assessing the impact of the new standard on its consolidated financial statements.

Financial Instruments – Disclosure and Presentation

In December 2006, the CICA issued Handbook Section 3862, Financial Instruments – Disclosures, and Handbook Section 3863, Financial Instruments – Presentation. These standards will replace Handbook Section 3861, Financial Instruments – Disclosure and Presentation. The new disclosure standard increases the emphasis on the risk associated with both recognized and unrecognized financial instruments and how those risks are managed. The new presentation standard carries forward the former presentation requirements under the existing Handbook Section 3861. These new accounting standards will be effective for AECL beginning April 1, 2008. AECL is assessing the impact of the new standards on its consolidated financial statements.

Inventories

The CICA issued a new section 3031, Inventories, in March 2007, which is based on International Accounting Standard 2. The new section replaced the existing section 3030, Inventories. Under the new section, inventories are required to be measured at the "lower of cost and net realizable value", which is different from the existing guidance. The new accounting standard and any consequential amendments will be effective for AECL beginning April 1, 2008. AECL is assessing the impact of the new standard on its consolidated financial statements.

3. Cash, Cash Equivalents and Short-Term Investments

Bank deposits are maintained at levels required to meet daily operating needs. Any surplus deposits are invested in the short-term money market. The investing strategy is based on a conservative risk assessment. All instruments mature within a year and are rated as R1 Low or higher by the Dominion Bond Rating Service and as A1 or higher by Standard and Poor's. The Corporation has designated short-term investment as held for trading. Segregated Cash of \$52 million (2007 – \$27 million) is invested under the same terms as Cash and Cash Equivalents. Investments are comprised of the following:

(thousands of dollars)	2008	Yield	2007	Yield
Cash and cash equivalents*	\$ 3,487	3.0%	\$ 100,453	4.3%
Canadian Government bonds**	\$ 965	3.9%	\$ 1,347	4.1%
Corporate bonds	–	–	11,872	4.3%
Negotiable term deposits	9,094	4.5%	–	–
Short-term investments	\$ 10,059		\$ 13,219	

*Cash and cash equivalents includes cash and short-term money market instruments

**Canadian Government bonds include federal and provincial bonds

4. Inventory

(thousands of dollars)

	2008	2007
Reactor fuel	\$ 13,826	\$ 11,859
Spare parts and store supplies	8,755	11,582
	\$ 22,581	\$ 23,441

Reactor Fuel inventory costs include an allocation of overhead.

5. Long-Term Receivables

(thousands of dollars)

	2008	2007
Contract receivables from customers in respect of the financing of products and services, maturing through 2019 at fixed repayment amounts	\$ 224,584	\$ 241,011
Current portion	(16,983)	(16,138)
	\$ 207,601	\$ 224,873

Required repayment amounts are recorded as operating activities on the cash flow statement and are scheduled as follows:

(thousands of dollars)

2009	\$ 16,983
2010	17,977
2011	19,028
2012	20,141
2013	21,319
Subsequent to 2013	129,136
	\$ 224,584

6. Trust Fund

The *Nuclear Fuel Waste Act* required the Canadian nuclear utilities to form a waste management organization, the Nuclear Waste Management Organization (NWMO), to provide recommendations to the Government of Canada on the long-term management of nuclear fuel waste and to implement the approach selected. The legislation also requires that each nuclear fuel waste owner establish a trust fund to finance implementation of the approach. Each individual trust fund is held in order to meet the requirements of the Act and only NWMO may withdraw monies from it in accordance with the provisions of the Act. As required by the Act, AECL's initial deposit to its Trust Fund was \$10 million on November 25, 2002. Subsequent annual deposits of \$2 million have been made as required, and will continue until the obligation ceases or the amount is modified by the Government of Canada once certain requirements stipulated in the Act are met by NWMO.

The Trust Fund, managed by CIBC on behalf of AECL, invests in fixed income instruments, with various maturities. The fund has been recorded as a long-term asset and measured at fair value. Interest earned from the fund offsets accretion expense related to the decommissioning and waste management provision. Quoted market values of the instruments are estimated at \$23.1 million as at March 31, 2008 (2007 - \$20.1 million). Interest earned on trust assets accrues to the Trust Fund. These investments are comprised of the following:

(thousands of dollars)	Maturities	2008	Yield	2007	Yield
Cash and cash equivalents*	April 2008 - September 2008	\$ 1,414	3.4%	\$ 4,682	4.3%
Canadian Government bonds**	September 2008 - December 2012	15,413	3.9%	9,222	3.9%
Corporate bonds	September 2008 - January 2011	6,290	4.0%	6,153	3.9%
		\$ 23,117		\$ 20,057	

*Cash and cash equivalents includes cash and short-term money market instruments

**Canadian Government bonds include federal and provincial bonds

7. Heavy Water Inventory

Heavy water inventory included 1,003 tonnes provided to the Sudbury Neutrino Observatory Institute at no cost. At March 31, 2008, detritiation of this water to AECL has been substantially completed. Heavy water inventory is recorded as a long-term asset since the lead-time required in relation to future reactor sales exceeds one year. A provision has been made for the detritiation and upgrading of certain heavy water inventory.

8. Property, Plant and Equipment

(thousands of dollars)						
	2008			2007		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
CANDU Reactor Division						
Construction in progress	\$ 1,147	\$ –	\$ 1,147	\$ 402	\$ –	\$ 402
Land and land improvements	999	258	741	999	255	744
Buildings	19,780	13,246	6,534	19,379	12,960	6,419
Machinery and equipment	29,072	23,607	5,465	28,453	21,612	6,841
	50,998	37,111	13,887	49,233	34,827	14,406
Research & Technology Division						
Construction in progress	37,793	–	37,793	140,949	–	140,949
Land and land improvements	44,109	25,533	18,576	43,917	24,034	19,883
Buildings	199,198	157,646	41,552	200,904	158,388	42,516
Reactors and equipment	276,136	245,468	30,668	270,994	242,898	28,096
	557,236	428,647	128,589	656,764	425,320	231,444
Total	\$ 608,234	\$ 465,758	\$ 142,476	\$ 705,997	\$ 460,147	\$ 245,850

Amortization of property, plant and equipment for the year ended March 31, 2008 amounted to \$11.8 million (2007 – \$12.0 million). The Government of Canada provided \$17.3 million of funding in 2008 (\$5.1 million – 2007) for capital infrastructure refurbishment projects at the Chalk River facilities (Note 13).

Deferred capital funding, historically provided to the Corporation through appropriations from its shareholder, is as follows:

(thousands of dollars)	2008
Deferred capital funding, opening balance (net)	\$ 40,035
Capital funding received during the year	17,300
Retirement of funded assets	(195)
Amortization of deferred capital funding	(2,409)
Deferred capital funding, closing balance (net)	\$ 54,731

Impairment of Long-Lived Assets

The Corporation regularly reviews the net recoverable amount of its long-lived assets. As a result of this review, in the year ended March 31, 2008, property, plant and equipment was written down by \$202 million and inventory was written down by \$45 million, for a total impairment expense of \$247 million. The impairment resulted due to uncertainty and delays in realizing cash flows from the Corporation's investment in the Dedicated Isotope Facilities (DIF) at Chalk River Laboratories (Note 10). The DIF is comprised of two medical isotope-producing reactors (MAPLE 1 and MAPLE 2) and their related processing facility.

9 Long-Term Payables

<i>(thousands of dollars)</i>	2008	2007
Loans from Government of Canada	\$ 500	\$ 1,500
Maturing September 2008, bearing interest at 4.31% to 4.43%, payable in \$0.5 million semi-annual instalments		
Long-term payable (Note 10)	48,091	46,172
Unsecured, maturing September 2012, repayments begin October 2008. Amount is net of discount of \$5.2 million at 4.08%		
	48,591	47,672
Less current portion	(7,160)	(1,000)
	\$41,431	\$ 46,672

Required payments over subsequent years are as follows (Note 10):

<i>(thousands of dollars)</i>	
2009	\$ 7,160
2010	13,319
2011	13,319
2012	13,319
2013	6,660
	\$ 53,777

10. Dedicated Isotope Facilities Isotope Supply Agreement

In February 2006, AECL entered into an agreement with MDS Nordion with respect to a long-term arrangement for the supply of isotopes. Under the agreement, AECL acquired beneficial ownership of the MAPLE reactors and New Processing Facility currently under construction at Chalk River, Ontario. AECL assumed responsibility for remaining construction and commissioning activities. AECL acquired \$53 million in isotopes production related inventory with a deferred payment obligation in 48 monthly instalments of \$1.1 million, commencing in October 2008. The value of this inventory and the related deferred obligation were recorded at \$41.7 million (Fuel and Targets), and \$2.5 million (Spare parts), the present value of these future payments (Note 9).

The amortization expense of \$1.9 million (2007 – \$1.8 million) related to the discount on the long-term payable was expensed in the Consolidated Statement of Operations and added to the outstanding principal balance of the related payable. Required payments are disclosed at the undiscounted amount (Note 9).

As a result of expected delays in completion of the MAPLE reactors, management does not expect construction and commissioning to be completed by the time specified in the agreement with MDS Nordion. The agreement specifically precludes MDS Nordion from commencing any legal proceedings against AECL for failing to meet the deadline. However, the 2006 agreement also provided that any claims that the parties had against each other under a previous agreement signed in 1996 would not be extinguished.

11. Research and Development Costs

Operating costs include R&D costs. AECL's R&D activities are undertaken to maintain and enhance Canada's scientific and technological expertise in support of the production of environmentally friendly and cost effective CANDU nuclear generated electricity, as well as other important peaceful nuclear technologies such as nuclear medicine. In particular, it involves the maintenance of intellectual property developed over the years. This includes basic knowledge of materials, reactor physics, chemistry, critical components, radiation and the environment, which could have an impact on the safety, licensing and design basis of CANDU technology. Additionally, it includes advancement of the economics, safety and operating performance of the existing product line and applying advancements to future technologies.

As of March 31, 2008, no development costs met the criteria for deferral (2007 – \$nil). The determination of qualifying development costs is subject to ongoing review.

R&D costs incurred in 2007-08 are as follows:

(thousands of dollars)	2008	2007
Commercial		
ACR-1000 development	\$ 86,893	\$ 69,050
Other commercial development	113	6,732
	87,006	75,782
Technology		
CANDU technology development	57,100	53,700
Facilities, nuclear operations & support costs	185,300	159,500
	242,400	213,200
Total R&D costs	\$ 329,406	\$ 288,982

12. Decommissioning and Waste Management Provision

AECL has an obligation to decommission its nuclear facilities and other assets in order to satisfy Canadian Nuclear Safety Commission (CNSC) and other applicable regulations. These facilities include prototype reactors, heavy water plants, nuclear research and development, waste management and other facilities. Due to the variety of facilities, the decommissioning process may differ in each case. In some situations, decommissioning activities are carried out in stages with intervals of several decades between them to allow radioactivity to decay before moving on to the next stage. These activities include surveillance and monitoring, decontamination, demolition and the management of the associated waste. A significant portion of the obligation relates to liabilities that were incurred prior to the creation of AECL in 1952.

In 2005, AECL completed a review of its decommissioning plan, the significant assumptions that underlie the estimate and the calculation of the nuclear facility decommissioning and waste management provision. The amended decommissioning plan adopted international standards with respect to prompt decommissioning practices. This involves addressing the waste early in the decommissioning cycle and optimizing the safe storage period to avoid the deferral of activities associated with physical demolition, waste processing and ultimate disposal. The amended plan projected undiscounted expenditures of \$6,993 million (in current dollars) until 2096.

The estimated future decommissioning and site remediation costs require that judgments be made about the regulatory environment, health and safety considerations, the desired end state, technology to be employed and, in some cases, research and development activities that extend well into the future. Significant assumptions determine the valuation, such as timing of major decommissioning and remediation project expenditures, regulation requirements, volumes of waste, market based premium, interest rate estimates, inflation factors, and the impact of technological advances. Another important assumption is that the liability reflects the affordable funding level necessary to achieve health, safety and environmental protection objectives that are in accordance with CNSC regulations. Changes to these assumptions, as well as changes to the timing of the programs or the technology employed, or changes in the standards and regulations governing the decommissioning of nuclear facilities, could result in material changes to the Decommissioning and Waste Management provision.

The decommissioning plan follows a hierarchy of activities to achieve: a controlled and controllable state for all redundant nuclear facilities that removes short-term risks; a sustainable, stable, safe state of the facilities under surveillance; and cost-optimized completion of actions to achieve a final end state that is an accepted completion of the decommissioning process as required by the regulator. The discount and inflation rates used to calculate the present value of the provision, at the time the plan was implemented, were 5.25% and 1.7% respectively. In accordance with the requirements of CICA section 3110 Asset Retirement Obligations, an increase in estimates, resulting from new liabilities or increases in the spending profile are discounted using the current rate of 4.3% while decreases use a blended rate of 5.18%.

Decommissioning and waste management provision reconciliation

(thousands of dollars)

	2008	2007
Opening balance	\$ 2,927,934	\$ 2,846,756
Liabilities settled	(94,189)	(60,993)
Accretion expense	151,674	147,761
Revision in estimate and timing of expenditures	13,255	(145)
Revision in estimate and timing of expenditures affecting property, plant and equipment	-	(14,374)
Waste, decommissioning and site restoration costs from ongoing operations	9,562	8,929
	3,008,236	2,927,934
Less current portion	(103,900)	(101,300)
	\$ 2,904,336	\$ 2,826,634

In June 2006, the Government of Canada announced it would provide funding of \$513 million over five years to fund the Nuclear Legacy Liability Program. Previous to this, AECL retained proceeds from Heavy Water sales to fund the decommissioning program (Note 15). As part of the funding arrangement with NRCan, AECL is required to separately account for waste, decommissioning, or site restoration liabilities that result from AECL's ongoing operations after April 1, 2006 (\$18.6 million) included in the closing Decommissioning and Waste Management provision.

13. Parliamentary Appropriations

The Corporation received funding from the Government of Canada as follows:

(thousands of dollars)

	2008	2007
Operating funding		
Research & Technology Division		
Research and related infrastructure	\$ 105,285	\$ 105,491
Chalk River Laboratories regulatory, health, safety, security and environment initiatives	12,607	-
Working capital	25,600	-
	143,492	105,491
CANDU Reactor Division		
ACR-1000 development	37,500	-
	\$ 180,992	\$ 105,491
Capital infrastructure refurbishment project funding	\$ 17,300	\$ 5,092

The Government of Canada has committed funding for 2008-2009 totalling \$300 million, in addition to \$152 million of appropriations already approved in the Main Estimates.

14. Employee Future Benefits

a) Pension Plan

The Corporation's employee pension benefits are covered through the Public Service Pension Plan (PSPP). Payments are made to three accounts: Public Service Superannuation Account (PSSA), Public Service Pension Fund account (PSPF), and the Retirement Compensation Arrangement account (RCA). Total contributions made on account of current service are as follows:

(thousands of dollars)

	2008	2007
Payments by employees	\$ 21,275	\$ 17,679
Payments by employer	\$ 46,568	\$ 39,409

The Corporation's rate of contribution to the PSSA is an equal contribution of the employee contributions and the PSPF account is a 2.02 multiple of the employee contributions (2007 - 2.14). The contribution to the RCA account for calendar year 2008 is a multiple of 7.3 of the employee contributions (calendar year 2007 - 7.0). The multiple is subject to change based on revaluation by the PSPP administration.

b) Other Employees' Future Benefits

The Corporation provides certain termination and other benefits as described in Note 2 (q). The accrued benefit obligation is not funded as funding is provided when benefits are paid. Accordingly, there are no plan assets and the plan deficit is equal to the accrued benefit obligation.

<i>(thousands of dollars)</i>	<i>2008</i>	<i>2007</i>
Accrued benefit obligation, beginning of year	\$ 77,046	\$ 74,152
Current service cost	5,186	3,671
Interest on accrued benefit obligation	4,106	3,896
Benefits paid	(5,146)	(6,399)
Actuarial losses (gains)	(2,115)	1,726
Accrued benefit obligation, end of year	79,077	77,046
Unamortized net actuarial losses	(10,600)	(13,200)
Accrued benefit liability	68,477	63,846
Current portion, accrued benefit liability	(7,828)	(7,148)
Net accrued benefit liability	\$ 60,649	\$ 56,698
Net benefit plan cost		
Current service cost	\$ 5,186	\$ 3,671
Interest cost	4,106	3,896
Amortization of actuarial losses	504	410
Annual benefit plan expense	\$ 9,796	\$ 7,977

Cumulative actuarial gains or losses in excess of 10% of the obligation are amortized over the remaining average service period of active employees. The average remaining service period of the active employees covered by the other employee future benefits plan is 11 years (2007 – 11 years). The measurement date of the accrued benefit obligation is March 31, 2008, and the latest actuarial valuation of these benefits was performed in March 2008. The next valuation will be performed in March 2009.

The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit obligation are:

- a discount rate of 5.75% (2007 – 5.25%)
- a rate of compensation increase of 5% (2007 – 5%)

15. Contributed Capital and Deferred Decommissioning Funding

Included in contributed capital is approximately \$214 million (2007 – \$242 million) related to parliamentary appropriations received for the production of heavy water inventory. Up to and including 1995–1996, the Corporation was required to repay the Government of Canada, by way of a dividend, the cash proceeds from the sale of government-funded heavy water. From 1997 to 2006, a Decision by the Treasury Board directed the Corporation to hold the proceeds from the sale or lease of government-funded heavy water in a segregated fund for use in decommissioning activities for the 10-year period following the Decision. As government-funded heavy water was sold or leased, the cash proceeds were transferred from contributed capital to deferred decommissioning funding, which was used to fund ongoing decommissioning activities.

Proceeds from sales made during the 10-year arrangement that are received after April 1, 2006 (Note 5) are transferred from contributed capital to deferred decommissioning funding, with a corresponding entry to segregated cash. Decommissioning activities are now funded through NRCan (Note 12).

Other cash proceeds from heavy water sales are recorded as repayable contributions to the Government of Canada and are presented in provisions on the Corporation's Consolidated Balance Sheet.

16. Related Party Transactions

In addition to the transactions disclosed in Notes 8, 9, 12, 13, 14 and 15, the Corporation had the following transactions with the Government of Canada:

<i>(thousands of dollars)</i>	2008	2007
Repayment of loans		
Principal	\$ 1,000	\$ 1,000
Interest	54	77
	\$ 1,054	\$ 1,077

Cost recovery from third parties includes billings to NRCan for historic low-level radioactive waste management activities.

In the normal course of business, the Corporation also enters into various transactions with the Government of Canada, its agencies and other Crown corporations. These transactions are recorded at the exchange amount.

17. Commitments, Contingencies and Obligations

a) Commitments

The Corporation has entered into non-cancellable operating leases expiring on various dates for the rental of office space. The leases contain an escalation clause providing for additional rent. Minimum future lease payments under these operating leases are as follows:

<i>(thousands of dollars)</i>	
2009	\$ 9,394
2010	9,086
2011	8,534
2012	8,671
2013	7,037
Subsequent to 2013	26,191
	\$ 68,913

b) Regulatory Obligations

To ensure compliance with CNSC site licence conditions and other regulatory requirements, the Corporation has undertaken major investment in new and existing building infrastructure at the Chalk River facility. The Corporation's obligations under this Infrastructure Renewal program for 2008/2009 is \$59 million.

c) Performance Guarantees & Liquidated Damages

It is industry practice to use letters of credit, surety bonds and other performance guarantees on major contracts. Such guarantees may include guarantees that a project will be completed or that a project or particular equipment will achieve defined performance criteria.

AECL also guarantees, in the normal course of business, that certain projects will be completed within a specified time and may bear responsibility for liquidated damages should obligations not be met.

The aggregate amount of the Corporation's potential exposure under the performance guarantees and liquidated damages are estimated to be approximately \$501 million at March 2008. These arrangements are common within the industry. Historically, AECL has not made any material payment on performance guarantees or on any liquidated damage claims. Management does not expect these guarantees to have a material impact on the Consolidated Financial Statements of the Corporation.

d) Other

In the normal course of operations, AECL has become involved in various claims and legal proceedings. While the final outcome with respect to claims and legal proceedings pending at March 31, 2008 cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material adverse effect on AECL's financial position or results of operations.

18. Financial Instruments and Financial Risk Management

a) Foreign Currency Exchange

The Corporation enters into foreign exchange forward contracts to reduce the risk associated with the purchase and sale of goods in foreign currencies. These contracts are expected to be effective as hedges. As of March 31, 2008, there are 33 (2007 – 32) forward contracts with a notional value of \$15 million (2007 – \$19 million). Expiry dates on foreign exchange forward contracts are between April 2008 and June 2009.

The following table shows the fair value of the hedges used to manage risk associated with foreign exchange, expressed in Canadian dollars and other currencies. The impact of foreign exchange hedging transactions on operations is recorded in the line item corresponding to the hedged item within OCI:

<i>(thousands of dollars)</i>	<i>2008</i>	<i>2007</i>
Instruments designated as cash flow hedges	\$ (219)	\$ 213

b) Credit Risk

The Corporation is exposed to credit risk in the collection of its accounts receivable. Three customers (2007 – three), each representing greater than 10% of the total accounts receivable, comprise an aggregate 55% (2007 – 62%) of total accounts receivable. No significant amounts are due in foreign currency.

c) Interest Rate Risk

The Corporation is exposed to interest rate risk through its asset retirement obligations. Changes in the discount rate are based on a credit adjusted risk-free rate that is sensitive to interest rate fluctuations.

d) Regulatory Risk

The nature of the business environment the Corporation operates in is highly regulated. Changes in political environment or government policy may have an adverse impact on the Corporation's financial position.

e) Fair Value

Fair value represents management's estimates of the market value at a given point in time. The carrying value of all financial assets and liabilities approximate fair value as at March 31, 2008 and 2007 with the exception of long-term receivables. The fair value of long-term receivables is \$225.4 million (2007 – \$242.2 million). This receivable is designated as "loans and receivables".

19. Comparative Figures

Certain 2007 comparative amounts have been reclassified from financial statements previously presented to conform to the 2008 financial statement presentation.

20. Subsequent Events

a) Dedicated Isotope Facilities

On May 16, 2008, the Corporation's Shareholder accepted AECL's decision to discontinue development of the MAPLE reactors. The decision was reached based on a series of reviews that considered, among other things, costs of further development, the time frame, and technical risks involved with continuing the facilities' development. AECL plans to continue producing isotopes for MDS Nordion through the National Research Universal reactor. As outlined in Notes 8 and 10, the Corporation had recorded an impairment expense for the year ended March 31, 2008 of \$247 million related to these facilities.

b) Corporate Plan

On June 5, 2008, the Corporation's 2007/2008 – 2011/2012 Corporate Plan was approved. Although the Corporation had submitted this Corporate Plan prior to the close of the fiscal year, the Plan was approved subsequent to year-end, after the resolution of budgetary and policy issues affecting the Corporation.

BOARD OF DIRECTORS

GLENN CARR

Appointed effective January 2008, Chair of the Board, AECL, Mississauga, Ontario

Formerly Chair of Board of Directors, Independent Electricity System Operator, Chair of Board of Technical Standards and Safety Authority, President of the Canadian Council for Public-Private Partnerships, Board Director, Aul Foods Ltd.; Chief Executive Officer, Carr-Gordon Ltd., Vice-President, Laird Inc., Deputy Minister of the Ontario Management Board of Cabinet, Ministry of Consumer and Commercial Relations, and Ministry of Skills Development. Awarded National Champion for Excellence and Innovation in Public-Private Partnerships 2001; ICD.D Certified Director, Institute of Corporate Directors 2005. Committees: Ex-officio on Audit; Science & Technology; Human Resources and Governance.

HUGH MACDIARMID

Appointed effective January 2008, President and Chief Executive Officer, AECL, Mississauga, Ontario

Director of A/H Holding Inc.
Formerly Managing Director, Holden America LLC, President and Chief Executive Officer, Laidlaw Educational Services, Executive Vice-President, Commercial, Canadian Pacific Railway, President and Chief Executive Officer, Lumonics Inc. and partner with McKinsey & Company. Previous appointee of both the Government of Canada, as Chairman of the External Advisory Committee on Smart Regulation, and the Government of Ontario, as Governor of Ortech International. Committees: Ex-Officio on Audit; Science & Technology; Human Resources & Governance.

MARCEL AUBUT, D.C., D.Q., F.C.I., Ad. E.

Lawyer, senior partner, Heenan Blaikie law firm, Montreal

Formerly President, Chairman & CEO of the Quebec Nordiques (Quebec City's franchise in the National Hockey League) and Governor of the NHL; Founder of Aubut Chabot (Quebec City law firm), Founder and President of the Quebec Metro High Tech Park, President and CEO of Trans-America Productions Ltd. Current directorships include: Whole Foods Market

Canora, Olymel L.P., Aeterna Zentaris Inc.; Boralex Power Income Fund; Triton Elektronik Inc.; Faculty of Law, Laval University; Canadian Olympic Committee (Board of Directors and Executive Committee); Canada's Sports Hall of Fame, Fondation Nordiques. Officer of the Ordre national du Québec (2006), Member (1986) and Officer (1993) of the Order of Canada, Official Medal of the Quebec National Assembly (1981), Queen's Counsel (1986), and inducted into Canada's Sports Hall of Fame in 1999. Recipient of the Quebec Bar's honorary title of Eminent Lawyer in 2008. Appointed January 2001, reappointed in 2005 and 2008. Committee: Human Resources & Governance.

RICHARD BOUDREAU

Chief Executive Officer, Exploration Orbite Inc.

Formerly Chief Executive Officer of PyroGenesis Inc., Chief Technology Officer and Vice-President of Corporate Strategy at Advanced Research and Technology Inc. and Venture Advisor for Caisse de dépôt et placement du Québec, Lead Director Evergreen Biofuels and Dell-Point Technology, Executive Chair of Board, BroadSign International Inc., Director of Raymor Industries, ITSMAX, GeoMax and JAG Mines Ltd. He holds a physics degree from University of Montreal, an engineering master's degree from Cornell University and an MBA from Université de Sherbrooke. Appointed December 2007, Committee: Audit.

RICHARD DICERNI

Deputy Minister, Industry Canada

Formerly Partner, Mercer Delta Canada, Executive Vice-President, Acting-President and Chief Executive Officer, Ontario Power Generation, President and Chief Executive Officer, Canadian Newspaper Association, Deputy Minister of Education and Training, Intergovernmental Affairs, Environment and Energy, Government of Ontario. Appointed December 2007, Committee: Audit.

CASSIE J. BOYF

Deputy Minister, Human Resources Canada

Formerly Associate Deputy Minister of Environment Canada, President and Chief Executive Officer, British Columbia Assets and Land Corporation, Deputy Minister of Environment, Lands

and Parks, Small Business, Tourism and Culture, and Housing and Consumer Services, and Assistant Deputy Minister of Municipal Affairs, Government of British Columbia. Appointed December 2007. Committee: Human Resources & Governance.

ROBERT J. HARDING, F.C.A.

Chairman Brookfield Asset Management Inc.

Fellow Chartered Accountant (F.C.A.), Awarded the Queen's Golden Jubilee Medal for community service and an honorary Doctor of Laws Degree from the University of Waterloo. Current directorships include Brookfield Asset Management, AGO, Norbord Inc. and Fraser Papers Inc. He is Chair of the Board of Governors of University of Waterloo and also Chair of United Way of Greater Toronto Board of Trustees and a Trustee of the Toronto Hospital for Sick Children. Appointed May 2005. Committee: Vice-Chair - Audit.

CLAUDE LAJEUNESSE

President and CEO, Aerospace Industries Association of Canada

Formerly President of Concordia University, Montreal and Ryerson University, Toronto, and President & CEO of the Association of Universities and Colleges of Canada. Member of the Board of TD Meloche Monnex, Canadian Liver Foundation, Canadian Council for Christians and Jews. Appointed March 2005, Committee: Member, Science & Technology.

JAMES (JASPER) MCKEE

Professor Emeritus, University of Manitoba, Winnipeg, Manitoba

Professor of Physics at the University of Manitoba and Director of its Accelerator Centre, PhD (Nuclear Physics), Queen's, Belfast, DSc University of Birmingham UK, Fellow of the Institute of Physics (UK) and Past-President of the Canadian Association of Physicists, past member of the National Advisory Board on Science and Technology. Directorships include: Smartpark at University of Manitoba (two terms), Canadian Club of Winnipeg (President, 2006), Westminster Housing Society. Elected member of the European Academy of Sciences. Editor of Physics in Canada (1995-2007). Awards include: the Queen's Golden Jubilee Medal, the Peter Kirby Memorial Medal of the

Canadian Association of Physicists, and the McNeil Medal of the Royal Society of Canada. Committees: Chair - Science & Technology; Member, Human Resources & Governance.

GORDON H. SHAW

Director, Corporate Secretary, and Advisory Board Chair, Aeolis Wind Power Corporation

Formerly Senior Executive with Imperial Oil Limited, Vice-Chair and Executive Director, Reform Party of Canada, Chair of Board and Director, Terra Mines, President and Director, SPL Wastewater Recovery Centre. Appointed December 2007. Committee: Science & Technology.

STELLA THOMPSON

Governance Consultant and Director, Principal and Co-Founder of Governance West Inc., Calgary, Alberta
Current directorships include: Alberta's Electricity Balancing Pool, Alberta WaterSmart, Calgary Airport Authority, Calgary Herald Advisory Board, Genome Alberta (Vice-Chair), and Talsman Energy Inc. Recipient of the ICD.D certification granted by the Institute of Corporate Directors and, in 2005, was recognized by the Women's Executive Network and the University of Western Ontario's Richard Ivey School of Business as one of Canada's Top 100 Most Powerful Women. Formerly a Vice-President at Petro-Canada. Appointed September 2002. Committee: Chair - Human Resources & Governance; Member, Audit.

BARBARA TRENHOLM

Professor and Teaching Scholar, Faculty of Business Administration, University of New Brunswick, Fredericton, N.B.

Fellow Chartered Accountant. Other directorships include: Plazacorp Retail Properties Ltd. Member of the Institute of Corporate Directors. Awards include the National Post/PricewaterhouseCoopers Leaders in Management Education Award, the Global Teaching Excellence Award, and UNB Merit Award. Formerly a member of the Canadian Institute of Chartered Accountants' Board of Directors, Past-President of the New Brunswick Institute of Chartered Accountants, and former Acting Dean of UNB's Faculty of Business Administration. Appointed June 2002. Committee: Chair - Audit.

OFFICERS

HUGH MacDIARMID
*President and
Chief Executive Officer*

ALA ALIZADEH
*Acting Vice-President,
Marketing and Business
Development*

RICHARD COTÉ
Vice-President, Finance

RON CULLEN
*Vice-President and
General Manager, Projects*

ALLAN HAWRYLUK
*Senior Vice-President,
Corporate Affairs, General Counsel
and Corporate Secretary*

JERRY HOPWOOD
*Vice-President,
Reactor Development*

WAYNE INCH
*Vice-President and
General Manager, Operations*

MICHAEL INGRAM
*Senior Vice-President,
CANDU Projects and Services*

WILLIAM KUPFERSCHMIDT
*Vice-President and General Manager,
Research & Development*

BRIAN MCGEE
*Vice-President and
Chief Nuclear Officer*

BETH MEDHURST
*Senior Vice-President,
Human Resources*

JOAN MILLER
*Vice-President and General Manager,
Waste Management and
Decommissioning*

KEN PETRUNIK
*Executive Vice-President and
Chief Operating Officer*

ANDRE ROBILLARD
*Vice-President,
Chief Information Officer*

MICHAEL ROBINS
*Senior Vice-President and
Chief Financial Officer*

DAVID TORGERSOHN
*Executive Vice-President and
Chief Technology Officer*

IAN TROTMAN
*Vice-President and General Manager,
CANDU Services*

CORPORATE GOVERNANCE

The corporate governance structure of AECL is similar to publicly traded companies with the Board of Directors appointed by AECL's shareholder, the Government of Canada. The Board Chair, the President and Chief Executive Officer and the Directors are each appointed by the Shareholder by Order-in-Council. In 2007–2008, the Board provided direction, input and evaluation of AECL's strategic plans and approved major contracts and initiatives.

AECL's corporate governance framework reflects best practice as outlined in the Treasury Board of Canada Secretariat's Corporate Governance Guidelines for Crown Corporations. The Board of Directors recognizes that effective corporate governance is an ongoing process that requires continuous improvement of corporate processes necessary to ensure a high level of accountability to its stakeholders. In 2007–2008, AECL continued to implement and strengthen its governance activities to enhance stronger accountability and transparency throughout its organization. In particular, the Board undertook the following initiatives this year:

- Commenced Director succession and search process for the purpose of ensuring continuity and strong leadership by the Board, aligned with strategic priorities
- Oversaw the development of a comprehensive Enterprise Risk Management structure to ensure that the Board is in a position to assess and monitor the risks associated with AECL's business
- Commenced a review of its Board Committee structure for the purpose of ensuring the appropriate level of Board oversight over business risk and other related risks
- Revised the position statements of the Board Chair and the President and Chief Executive Officer to reflect best practice

- Revised the Director skill profile which outlines the skills and experience required by Directors of AECL
- Upgraded the orientation process for new Directors

THE BOARD

During 2007–2008, the Board welcomed several new Directors which brought the Board complement to 12 members, 9 of whom are independent in the sense that they are not management, nor do they have any interest, business or other relationship with the company. AECL's business affairs are governed by the Board of Directors, which provides key stewardship responsibilities as set out in the Board Charter. These responsibilities include oversight for financial management, identification of principal risks, approval of the strategic direction of the organization, examination of the corporation's public policy objectives, as well as meeting its overall legal requirements.

Total Board travel and related expenses during 2007–2008 were \$73,214 compared to \$89,558 the previous fiscal year. The compensation of the Board complies with the Remuneration Guidelines for part-time Governor in Council Appointees. Ms. Doyle, Mr. Dicerni, and Mr. MacDiarmid, the three non-independent Directors, do not receive compensation as Directors. The Board has in place a number of governance policies and procedures to assist it in fulfilling its role and responsibilities. The table below sets forth the record of attendance for Board and committee meetings for each of the Directors over the past fiscal year.

Table of Directors' Attendance at Meetings of the Board and at Board Committees, 2007–2008

Director	Audit (8 meetings)	Science & Technology (2 meetings)	Human Resources & Governance (8 meetings)	Board of Directors (14 meetings)
M. Burns ¹	–	–	–	8/10
G. Carr ^{2*}	2/2	1/1	5/5	4/4
R. Van Adel ³	4/6	–	2/2	4/8
H. MacDiarmid ^{4*}	2/2	1/1	3/5	4/4
M. Aubut	–	–	8/8	13/14
R. Boudreault ⁵	2/2	1/1	–	4/4
R. Dicerni ⁵	2/2	–	–	3/4
C. Doyle ⁵	–	–	2/5	3/4
R. Harding	5/8	–	–	10/14
C. Lajeunesse	–	2/2	–	14/14
J. McKee	–	2/2	7/8	13/14
G. Shaw ⁵	–	1/1	–	4/4
S. Thompson	8/8	–	7/8	12/14
B. Trenholm	8/8	–	–	12/14

¹ M. Burns resigned December 31, 2007

² G. Carr was appointed Chair of the Board effective Jan. 2, 2008

³ R. Van Adel resigned November 2, 2007

⁴ H. MacDiarmid was appointed President and CEO effective Jan. 2, 2008

⁵ R. Boudreault, R. Dicerni, C. Doyle and G. Shaw were appointed Directors effective Dec. 3, 2007

* Ex-Officio Members of all Committees, with the exception that Mr. MacDiarmid is not a member of the Audit Committee.

FIVE-YEAR CONSOLIDATED FINANCIAL SUMMARY

(Unaudited)

(millions of dollars)	2008	2007*	2006*	2005*	2004*
Commercial Operations					
Revenue	\$ 541	\$ 514	\$ 303	\$ 283	\$ 407
Interest revenue	17	19	17	18	20
Net income before investment in Advanced CANDU reactor development	\$ 50	\$ 80	\$ 48	\$ 72	\$ 75
ACR Funding	38	—	60	35	46
ACR Development costs	87	69	61	90	67
Net income (loss)	1	11	47	17	54
Technology					
Revenue	\$ 41	\$ 41	\$ 87	\$ 55	\$ 60
Funding	163	123	120	118	127
Gains	—	—	61	—	—
Impairment charge	247	—	—	—	—
Net income (loss)	\$ (297)	\$ (70)	\$ 33	\$ (51)	\$ (19)
Liability Management Unit					
Funding	\$ 100	\$ 68	\$ 56	\$ 47	\$ 50
Net loss	\$ (68)	\$ (84)	\$ (75)	\$ (1,807)	\$ (68)
Financial position					
Cash, cash equivalents, segregated cash and short-term investments	\$ 65	\$ 141	\$ 111	\$ 67	\$ 125
Heavy water inventory	295	299	299	300	300
Capital expenditures	111	84	56	8	14
Property, plant and equipment	142	246	188	135	127
Decommissioning and waste management provision	3,008	2,928	2,847	2,750	945
Long-term payables (excludes current portion)	\$ 41	\$ 47	\$ 46	\$ 3	\$ 4
Other					
Export revenues	\$ 136	\$ 124	\$ 183	\$ 225	\$ 358
Number of full-time employees	4,728	4,135	3,604	3,221	3,214

*Certain of these amounts have been reclassified to conform to the 2008 Financial Statement presentation

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